Resumption of Gold Payments by the Union of South Africa.

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

(U.G. No. 12 V 13, '25)
REPORT

SUBMITTED BY

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AND

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ON THE

Resumption of Gold Payments

BY THE

Union of South Africa

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(3) investment in Union Government or municipal notes or bills with maturities exceeding six months to amount of Bank's paid-up capital;
(4) extension of usance for discounts from 90 to 120 days;
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**FORM OF QUESTIONNAIRE**

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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}{4} 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}{4} 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*:

<table>
<thead>
<tr>
<th>Country</th>
<th>Index Number</th>
<th>Month</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Africa</td>
<td>133</td>
<td>October</td>
</tr>
<tr>
<td>Egypt</td>
<td>148</td>
<td>September</td>
</tr>
<tr>
<td>United States</td>
<td>149</td>
<td></td>
</tr>
<tr>
<td>Canada</td>
<td>154</td>
<td></td>
</tr>
<tr>
<td>Netherlands</td>
<td>159</td>
<td></td>
</tr>
<tr>
<td>Switzerland</td>
<td>160</td>
<td>October</td>
</tr>
<tr>
<td>Australia</td>
<td>162</td>
<td>September</td>
</tr>
<tr>
<td>Sweden</td>
<td>163</td>
<td></td>
</tr>
<tr>
<td>United Kingdom (Board of Trade)</td>
<td>167</td>
<td></td>
</tr>
<tr>
<td>(Statist)</td>
<td>166</td>
<td></td>
</tr>
<tr>
<td>Dutch East Indies</td>
<td>174</td>
<td>July</td>
</tr>
<tr>
<td>British India</td>
<td>179</td>
<td>September</td>
</tr>
<tr>
<td>New Zealand</td>
<td>181</td>
<td>August</td>
</tr>
<tr>
<td>Spain</td>
<td>184</td>
<td>September</td>
</tr>
<tr>
<td>Japan</td>
<td>206</td>
<td></td>
</tr>
<tr>
<td>Denmark</td>
<td>234</td>
<td></td>
</tr>
<tr>
<td>Norway</td>
<td>275</td>
<td></td>
</tr>
<tr>
<td>France</td>
<td>486</td>
<td></td>
</tr>
<tr>
<td>Belgium</td>
<td>550</td>
<td></td>
</tr>
<tr>
<td>Italy</td>
<td>580</td>
<td></td>
</tr>
<tr>
<td>Czecho-Slovakia</td>
<td>997</td>
<td></td>
</tr>
</tbody>
</table>

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:

<table>
<thead>
<tr>
<th>Year</th>
<th>Index Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>1921</td>
<td>147</td>
</tr>
<tr>
<td>1922</td>
<td>149</td>
</tr>
<tr>
<td>1923</td>
<td>154</td>
</tr>
<tr>
<td>1924 (10 months)</td>
<td>149</td>
</tr>
</tbody>
</table>

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 largely be avoided, and in most important 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 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, 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 4½ 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 meagre. 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,
had 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 con­
serving 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 earing
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 opera­
tions 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 depositary 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?
ANNEXURE 1.

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

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 JANUARIJ 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).

GROOTHANDELSPRIJZEN VAN UNIE VAN ZUID-AFRIKA GERANGSCHIKT ALS ALLE LEVENSBEHOEFTEN, ZUIDAFRIKAANSE PRODUKten EN INGEVOERDE GOEDEREN, DE LAATSTE VERGELEKEN MET HET VERENIGD KONINKRIJK (ECONOMIST).
ANNEXURE 3.

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.

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AANHANGSEL 4.
WIJZIGINGEN IN VOLUME EN WAARDE VAN OVERZEES HANDEL, 1913-1923.
ANNEXURE 5.
SOUTH AFRICA ON LONDON—TELEGRAPHIC TRANSFER RATES, 1913—1924.

AANHANGSEL 5.
ZUID-AFRIKA OP LONDEN—TELEGRAFIÈSE TRANSFERTEN-TARIEF, 1913—1924.
ANNEXURE 1.

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

VALUE OF THE POUND STERLING EXPRESSED IN DOLLARS.
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 maandelijkse zichtbare handelsaldo van de Unie, 1919-1924.

Buying rate telegraphic transfer on London.

Koop-tarief, telegrafiese transferten op Londen.

Monthly difference between exports and imports.
Annexure 7.


Value of the Pound Sterling expressed in dollars.
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 HANDELS BANKEN.

DEPOSITO’S, WISSELS EN VOOR-SCHOTTEN, 1891-1924.
## SOUTH AFRICAN RESERVE BANK.

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

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* Notes of other banks for which liability was assumed in June, 1924, in terms of section 18 (3) (c) of Act No. 31 of 1920, are not 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 II.)

† 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.
## ANNEXURE II.

### SOUTH AFRICAN BANKS.

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

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<tr>
<td>Jan. 31</td>
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<td>5,590 £</td>
<td>5,132 £</td>
<td>9,717 £</td>
<td>15-1 £</td>
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<td>765 £</td>
<td>39,768 £</td>
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<td>1,590 £</td>
<td>5,556 £</td>
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<td>5,010 £</td>
<td>5,029 £</td>
<td>11,559 £</td>
<td>18-9 £</td>
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<td>2,171 £</td>
<td>60,778 £</td>
<td>1,577 £</td>
<td>5,513 £</td>
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<td>2,106 £</td>
<td>60,202 £</td>
<td>1,560 £</td>
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<td>5,001 £</td>
<td>10,254 £</td>
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<td>699 £</td>
<td>38,490 £</td>
<td>2,120 £</td>
<td>58,789 £</td>
<td>1,499 £</td>
<td>4,658 £</td>
<td>5,119 £</td>
<td>9,570 £</td>
<td>17-6 £</td>
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<td>Oct. 31</td>
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<td>38,382 £</td>
<td>2,071 £</td>
<td>56,868 £</td>
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<td>4,956 £</td>
<td>5,348 £</td>
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<td>57,571 £</td>
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<td>5,262 £</td>
<td>4,903 £</td>
<td>9,056 £</td>
<td>14-9 £</td>
</tr>
<tr>
<td>Dec. 31</td>
<td>571 £</td>
<td>40,993 £</td>
<td>2,065 £</td>
<td>62,107 £</td>
<td>1,619 £</td>
<td>5,086 £</td>
<td>4,802 £</td>
<td>9,487 £</td>
<td>15-2 £</td>
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</table>

| **1923** |    |    |    |    |    |    |    |    |    |     |
| Jan. 31 | 555 £ | 42,241 £ | 20,095 £ | 62,991 £ | 1,641 £ | 2,986 £ | 4,907 £ | 9,817 £ | 15-7 £ | 37,808 £ |
| Feb. 29 | 542 £ | 40,585 £ | 20,411 £ | 61,335 £ | 1,564 £ | 2,590 £ | 5,082 £ | 9,895 £ | 15-1 £ | 38,083 £ |
| Mar. 31 | 506 £ | 39,379 £ | 20,589 £ | 63,790 £ | 1,606 £ | 2,455 £ | 5,562 £ | 9,524 £ | 15-6 £ | 38,244 £ |
| Apr. 30 | 466 £ | 37,025 £ | 20,230 £ | 56,892 £ | 1,621 £ | 2,733 £ | 5,543 £ | 9,957 £ | 19-8 £ | 36,733 £ |
| May 31 | 447 £ | 37,385 £ | 20,475 £ | 63,837 £ | 1,600 £ | 3,268 £ | 5,892 £ | 9,477 £ | 19-2 £ | 37,089 £ |
| June 30 | £ | 36,995 £ | 19,446 £ | 57,541 £ | 1,423 £ | 2,564 £ | 5,933 £ | 9,541 £ | 18-9 £ | 36,550 £ |
| July 31 | £ | 37,557 £ | 19,999 £ | 56,566 £ | 1,458 £ | 2,763 £ | 5,560 £ | 9,482 £ | 18-6 £ | 38,754 £ |
| Aug. 31 | £ | 35,008 £ | 20,283 £ | 56,189 £ | 1,460 £ | 2,499 £ | 5,038 £ | 8,937 £ | 19-9 £ | 37,142 £ |
| Sept. 30 | £ | 35,888 £ | 19,683 £ | 55,233 £ | 1,453 £ | 2,451 £ | 4,807 £ | 8,662 £ | 19-1 £ | 37,657 £ |
| Oct. 31 | £ | 37,063 £ | 19,530 £ | 56,268 £ | 1,402 £ | 2,372 £ | 4,992 £ | 8,768 £ | 18-4 £ | 37,229 £ |
| Nov. 30 | £ | 37,108 £ | 20,599 £ | 57,805 £ | 1,369 £ | 2,523 £ | 4,951 £ | 8,842 £ | 15-2 £ | 37,387 £ |
| Dec. 31 | £ | 38,571 £ | 20,065 £ | 58,536 £ | 1,303 £ | 2,962 £ | 4,654 £ | 8,589 £ | 15-1 £ | 36,558 £ |

*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.*
UNION OF SOUTH AFRICA.

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

<table>
<thead>
<tr>
<th>Financial Year ended 31st March.</th>
<th>Amount Raised by Stock or Debentures</th>
<th>Amount Raised by Treasury Bills and Advances from Banks</th>
<th>Stock or Debentures Repaid or Cancelled.</th>
<th>Treasury Bills and Advances from Banks Repaid.</th>
<th>Net Borrowings.</th>
<th>Repayments or Cancellations in excess of Borrowings.</th>
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<td>£8,000,000</td>
<td>£6,000,000</td>
<td>£280,740</td>
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<td>1914-15</td>
<td>£4,000,000</td>
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<td>£182,100</td>
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<td>£182,100</td>
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<tr>
<td>1915-16</td>
<td>£3,000,000</td>
<td>*£221,210</td>
<td>£231,484</td>
<td>*£221,210</td>
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<td>£249,412</td>
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<td>1917-18</td>
<td>-</td>
<td>-</td>
<td>£1,151,349</td>
<td>-</td>
<td>£1,151,349</td>
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<td>1918-19</td>
<td>-</td>
<td>-</td>
<td>£1,020,191</td>
<td>-</td>
<td>£1,020,191</td>
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<td>1919-20</td>
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<td>-</td>
<td>£151,901</td>
<td>-</td>
<td>£151,901</td>
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<td>1920-21</td>
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<td>£6,516,164</td>
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<td>£2,483,836</td>
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<td>1924 (Apr. 1-Dec. 31)</td>
<td>£8,000,000</td>
<td>*£1,720,000</td>
<td>£1,980,900</td>
<td>*£1,720,000</td>
<td>£6,019,100</td>
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<td>£58,884,000</td>
<td>£38,198,777</td>
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<td>£36,788,777</td>
<td>£48,704,345</td>
<td>£2,505,541</td>
</tr>
</tbody>
</table>

Net sum borrowed abroad—1st April, 1913, to 31st December, 1924: £46,198,804

* 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 VISSEING
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

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.”
SUMMARY OF REPORT

1-10 Introductory: Terms of reference—Appointment and arrival of Commissioners—Interviews and informal evidence in London—Arrival in South Africa—General invitation to submit memoranda issued—Response to this invitation—Fifty persons invited to give oral testimony, of whom eleven were unable to appear—Commissioners' appreciation of assistance and co-operation of the witnesses and officials...

11 Scope of inquiry. The South African pound different from the pound sterling; misunderstanding arises from not realizing that. Two courses open to South Africa: either to adopt the gold standard or the sterling standard...

12-13 Impracticability of following a depreciation of sterling only to a definite limit, say, 10 per cent.

14 The South African pound has been close to gold parity for some time and actually above it now...

15-19 Probability of sterling reaching gold parity before 1st July. South Africa, however, cannot wait, as a decision must be made at once. South Africa is in a favourable position to return to the gold standard...

20-22 No necessity for further deflation...

23 South Africa's strong gold position...

25-26 Risk of adopting the sterling standard which may involve inflation and subsequent deflation. Evils of inflation and deflation...

27-29 Gold not entirely a stable standard but more so than managed paper money standards...

30 Wisest course for South Africa, which is now at gold parity, is to clinch the matter, and for the Government to make an immediate public announcement to that effect...

31 Chief advantages of adopting gold standard summarized:
   (a) greater stability in purchasing power, both internal and external;
   (b) greater stability in interest rates and a lower level of real interest rates;
   (c) stability of exchange with gold standard countries, which are continually increasing in number, and which in many cases determine the ultimate price of South African exports;
   (d) greater confidence in South Africa abroad, which will encourage investment of foreign capital;
   (e) greater confidence of labour;
   (f) more convenient and more sanitary currency;
   (g) benefit to the gold industry by encouraging other countries to return to the gold standard.

32 There will always be some disadvantages attached to any change. The chief disadvantage is instability of exchange with England. Offsetting factors are:
   (a) the fact that neither high nor low rates of exchange are of permanent advantage or disadvantage to either importers or exporters;
   (b) exchange movements that benefit exporter, harm importer, and vice versa;
   (c) risks incident to a fluctuating exchange avoided by making forward exchange contracts.
Paraphrase

33-34 Commissioners advise introduction of forward exchange business in South Africa; the Reserve Bank and the Government to assist in the introduction. Forward exchange contracts used all over the world ...

35-36 Further disadvantage in breaking with sterling is the difficulty of public borrowing in a market having a different monetary standard. If sterling appreciates, the loan would have to be paid in an appreciated currency, but, on the other hand, if there was a strong belief at the time of borrowing in a currency appreciation of sterling, the interest rate on long-time loans will be nominally lower in London than in, say, a gold standard market such as New York ...

37-39 South Africa's credit abroad will be improved, but it is a risky policy to borrow heavily in a country with a managed paper currency. South Africa should reduce her public borrowing and as far as possible borrow on a gold basis whether at home or abroad ...

40-41 Reasons why South Africa should have no difficulty in maintaining a gold standard: There is now a mint and gold specie need not be imported, the central bank can maintain the monetary standard and there are enormous gold supplies being continually produced in the country ... 

42 Gold leaves a country usually because it is pushed out by paper money and deposit currency inflation, not because there are demands from abroad ...

43-45 Functioning of the Reserve Bank to assist the maintenance of the gold standard ...

46 No room in South Africa for a bank which is almost exclusively a bankers' bank. Bank must "be affected with a great public interest" and must enter the open market when the public interest demands that it should ...

47 It must be able to cover its expenses, build up a reasonable reserve, and pay adequate dividends on its capital in normal times ...

48 It has nearly adequate powers under the Act, but the following suggestions requiring minor changes in present law are made ...

49 Administrative changes suggested with a view to Bank functioning more effectively ...

50 (1) issue of 90-day Treasury bills;
(2) preferential rates for trade acceptances;
(3) use of Bank as chief depository for Government funds;
(4) Bank should open branches in principal towns in Union and in London.
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51    Withdrawal of gold certificates ... ... ... ... xxx
52    Withdrawal of restrictions on the melting of gold coin and bullion ... ... ... ... ... xxx

FORM OF QUESTIONNAIRE ... ... ... ... ... ... ... xxxi

ANNEXURES:

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), 1914–24.
10. Statement showing principal liabilities and assets of the South African Reserve Bank from 1921.
12. Union of South Africa Government borrowings abroad, 1st April, 1913, to 31st December, 1924.

List of witnesses in South Africa ... ... ... ... Facing page 1
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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 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 3½ per cent. discount and the selling rate is 2½ 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 12½ 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
7. Australia ........................ 162 (September).
8. Sweden .......................... 163
9. United Kingdom (Board of Trade) 167 (Statist) ... 166
10. Dutch East Indies .............. 174 (July).
11. British India .................. 179 (September).
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

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:

<table>
<thead>
<tr>
<th>Year</th>
<th>Index Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>1921</td>
<td>147</td>
</tr>
<tr>
<td>1922</td>
<td>149</td>
</tr>
<tr>
<td>1923</td>
<td>154</td>
</tr>
<tr>
<td>1924 (10 months)</td>
<td>149</td>
</tr>
</tbody>
</table>

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 illustra­
tion, a merchant who is contemplating the importa­
tion 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, over­
buy; 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.

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 4½ 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 role 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 depositary 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 1920?

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.

*Graph showing wholesale prices from 1914 to 1924.*

- **Union of South Africa (Census Office)**
- **United Kingdom (Economist)**
- **United States of America (Labour Bureau)**

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 LEVENSBEHOEFTEN, ZUIDAFRIKAANSE PRODUCTEN EN INGEVOERDE GOEDEREN, DE LAATSTE VERGELEKEN MET HET VERENIGD KONINKRIJK (ECONOMIST).
ANNEXURE 3.

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

BASE WHOLESALE JANUARY 1914 = 1,000
NIVEAU: GROOTHANDEL JANUARI 1914 = 1,000
RETAIL AVERAGE OF 1914 = 1,000
KLEINHANDEL, GEMIDDELD VAN 1914 = 1,000
ANNEXURE A.
CHANGES IN VOLUME AND VALUE OF OVERSEAS TRADE, 1913-1923.

AANHANGSEL A.
WIJZIGINGEN IN VOLUME EN WAARDE VAN OVERZEESE HANDEL, 1913-1923.

EXPORTS, SOUTH AFRICAN PRODUCE (EXCLUDING GOLD)
UITVOER, ZUIDAFRIKAANSE PRODUKTIE (UITOEZONDERD GOUD)

EXPORTS, SOUTH AFRICAN PRODUCE (INCLUDING GOLD)
UITVOER, ZUIDAFRIKAANSE PRODUKTIE (INBEGREPEN Goud)

IMPORTS
INVOER

VOLUME
VOLUME

PRICES
PRICES

PRICES

PRICES

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

ZUID-AFRIKA OP LONDEN-TELEGRAFIESE TRANSFERFETEN-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.

1919 1920 1921 1922 1923 1924 1925

BUYING RATE TELEGRAPHIC TRANSFER ON LONDON

SURPLUS - INVOER MILDOEN £ + EN % KOP-TARIJ, TELEGRAFISE TRANSFERTEN OP LONDEN
ANNEXURE 7.
COURSE OF AMERICAN EXCHANGE—LONDON ON NEW YORK, 1914 TO 1924.
VALUE OF THE POUND STERLING EXPRESSED IN DOLLS.

AANHANGSEL 7.
AMERIKAANSE WISSELKOERS—LONDEN OP NEW YORK, 1914 TOT 1924.
WAARDE VAN HET POND STERLING IN DOLLARS UITGEDRUKT.

[Graph showing the exchange rate of the pound sterling to dollars from 1914 to 1924.]
FIDUCIARY CIRCULATION OF BRITISH CURRENCY NOTES.
FIDUCIAIRE CIRKULATIE VAN BRITSE BETAALMIDDEL-NOTEN.
ANNEXURE 9.
SOUTH AFRICAN COMMERCIAL BANKS.
DEPOSITS, BILLS, AND ADVANCES,
1891-1924.

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.

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† 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 basis of Other Liabilities. In the Bank Return evidently includes liabilities to the public as well as liabilities to stockholders.
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<td>Mar. 31</td>
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<td>Apr. 30</td>
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<td>22,128</td>
<td>60,221</td>
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*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 in 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.

<table>
<thead>
<tr>
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<tr>
<td></td>
<td>£</td>
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<tr>
<td>1913-14</td>
<td>8,000,000</td>
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<td>1916-17</td>
<td>8,384,000</td>
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<td>249,412</td>
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<td>1917-18</td>
<td>-</td>
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<tr>
<td>1918-19</td>
<td>-</td>
<td>1,020,191</td>
<td>-</td>
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<tr>
<td>1919-20</td>
<td>-</td>
<td>151,901</td>
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<tr>
<td>1920-21</td>
<td>-</td>
<td>3,000,000</td>
<td>109,806</td>
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<td>37,545</td>
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<td>1922-23</td>
<td>-</td>
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<td>3,825,396</td>
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<td>1923-24</td>
<td>13,000,000</td>
<td>2,063,567</td>
<td>6,516,184</td>
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<td>7,069,720</td>
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<tr>
<td>1924 (Apr. 1-Dec. 31)</td>
<td>8,000,000</td>
<td>1,720,000</td>
<td>1,980,900</td>
<td>6,019,100</td>
<td>2,505,541</td>
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<td>£ 58,684,000</td>
<td>38,188,777</td>
<td>12,085,196</td>
<td>38,704,345</td>
<td>46,198,804</td>
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Net sum borrowed abroad—1st April, 1913, to 31st December, 1924 .................................................. £46,198,804

* Advances from banks.
MINUTES OF EVIDENCE.
# LIST OF WITNESSES IN SOUTH AFRICA

## NAME OF WITNESS

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<th>Name of Witness</th>
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<tr>
<td>Aiken, A., Public Accountant</td>
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<td>Becklake, J. T., Superintendent, Royal Mint, Pretoria</td>
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<tr>
<td>Bruwer, A. J., M.A., Ph.D., Chairman, Board of Trade and Industries</td>
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<tr>
<td>Caldecott, W. A., D.Sc., Scientific and Technical Adviser, Department of Mines and Industries</td>
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<tr>
<td>Carruthers, A. W., Acting Director of Census</td>
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<tr>
<td>Chappell, Sir E., K.B.E., Director, South African Reserve Bank</td>
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<tr>
<td>Clerk, W. H., Governor, South African Reserve Bank</td>
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<tr>
<td>Cousins, C. W., M.A., Secretary for Labour</td>
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<tr>
<td>Dr Kock, M. H., M.A., Ph.D., Member, Board of Trade and Industries</td>
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<td>Domisse, J., Acting General Manager, Netherlands Bank of South Africa</td>
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<td>Downie, A. T. W., Secretary, Pretoria Chamber of Commerce</td>
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<td>Duff, H., Member of the Pretoria Chamber of Commerce</td>
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<td>Epstein, M. G., Tutor in Economics, University of the Witwatersrand</td>
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<td>Evans, S., Chairman and Managing Director, Crown Mines</td>
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<td>Fahey, F. J., Member, Board of Trade and Industries</td>
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<td>Freemantle, H. E. S., M.A., Member, Board of Trade and Industries</td>
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<td>George, J., South African Industrial Federation</td>
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<td>Gibson, J. P., Senior General Manager, Standard Bank of South Africa, Limited</td>
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<td>Greig, D. C., Stockbroker</td>
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<td>Gundelfinger, K., Merchant</td>
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<td>Hewitt, C., Public Accountant</td>
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<td>Hill, R. E., Chief Clerk, Royal Mint, Pretoria</td>
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<td>Holloway, Professor J. E., D.Sc., Transvaal University College</td>
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<td>Jorissen, H. C., Deputy-Governor, South African Reserve Bank</td>
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<td>Kahan, B. R., Manager, Rand Refinery</td>
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<td>Lehfeldt, Professor R. A., D.Sc., University of the Witwatersrand</td>
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<td>Orr, H. J., C.A., Member of the Pretoria Chamber of Commerce</td>
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<td>Paterson, G. K., General Manager, National Bank of South Africa, Limited</td>
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<td>Pocock, F. V., Chairman, Pretoria Chamber of Commerce</td>
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<td>Richards, C. S., B.Com., Lecturer, Natal Technical College, Durban</td>
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<td>Rissik, S. A., B.A., LL.B., Advocate</td>
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<td>Stuart, J. H., Cohen, Transvaal Commercial Bank</td>
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<td>Stubbs, F. C., President, Association of Chambers of Commerce of South Africa</td>
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<td>Van der Horst, J. G., Director of Companies</td>
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<td>Van Gass, J. P., Retired Bank Manager</td>
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<td>Wallens, Sir E., K.B.E., President, Chamber of Mines</td>
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<td>Warner, B. H., Assistant Commissioner, Swaziland</td>
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<td>Willson, R. C., Land Surveyor</td>
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<tr>
<td>Wilmot, A. C., General Manager, Land and Agricultural Bank of South Africa</td>
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GOLD STANDARD COMMISSION.

MINUTES OF EVIDENCE.

THURSDAY, 11TH DECEMBER, 1924.

Mr. James Thomas Becklake (examined).

1. (Professor Kemmerer.) What is your present position?—I am the superintendent of the Royal Mint, Pretoria.

2. What previous experience have you had?—I was clerk in the Operative Department, Royal Mint, London, and subsequently chief clerk of the Royal Mint, Bombay. I am an associate member of the Institute of Electrical Engineers (London) and member of the Institute of Metals (London).

3. How long has this Mint been in operation?—Its construction was completed in 1922, and it began coining operations in 1923.

4. You operate by the authority of what legislation?—Under Imperial Proclamation dated 14th December, 1922, and the Union Coinage Act, No. 31 of 1922, we are responsible to the Deputy-Master and Comptroller of the Mint in London and through him to the Treasury, London, for administrative purposes and for matters connected with Imperial gold coinage, and in all other matters we work under the direction of the Union Treasury.

5. What coinage has the Mint done up to the present time?—We began with silver coinages. We began drawing in quantities of worn and reissuable British coin and Kruger coin, and recoined the metal obtained into new Union silver coins. We have also coined a certain number of bronze pennies, halfpennies, and farthings, and two small consignments of gold have been received for coinage into sovereigns.

6. The question before this Commission is that of the desirability of South Africa's returning to the gold standard 1st July next. One phase of this subject is the question of the work of the Mint here. You have here a system of free coinage of gold. Must the gold be brought in standard quality?—Not necessarily, but should any charges be incurred for bringing the gold up to the required quality and standard they must be borne by the consignor.

7. Any expense in connexion with bringing the gold up to the standard required is a charge placed upon the Treasury?—The Deputy-Master may refuse to receive gold which is not sufficiently pure for coinage. Otherwise such gold has to be sent to the Rand Refinery.

8. Would it not be to the advantage of the Mint to refine the rough gold itself?—Yes. At present the Deputy-Master will accept all gold of standard fineness and over fit for coinage. If under standard, it may be sent to Germiston for refining. Eleven-twelfths fine is the standard. Fine gold received would generally be gold from the refinery of the Chamber of Mines.

9. Most of the gold you have received has been fine gold?—In one case we had a quantity of gold which was below the standard required, and we sent it to the Rand Refinery for refining and charged the depositor with the charges incurred, but we were not compelled to do this. We keep a stock of alloy, and when fine gold comes in it is assayed, and upon the assay result the amount of alloy to be added is calculated.

10. (Dr. Vissering.) What is fine gold?—The Rand Refinery's fine gold average is 996 parts pure gold per 1,000.

11. (Professor Kemmerer.) Where is the assay office located?—In the Pretoria Mint. It is part of the Mint equipment.
12. Is the refinery there too?—We have no refinery. That is the difference between our mint and other mints in Australia and Canada. The refinery is in Germiston. It is a great convenience to the Chamber of Mines and also a source of profit to them.

13. Will you explain?—In the other branch mints in Australia, etc., refining, as well as minting, is carried out, and the profits accruing fall to the Government. Here we have no refinery at present, and therefore that portion of the work, which is the most profitable portion, is done elsewhere.

14. Was this subject discussed when the Mint was opened?—Before we were appointed this question was discussed, and the advisability of building a combined Government mint and refinery was considered.

15. Is the refinery a Government institution?—No; the Rand Refinery is a private undertaking.

16. Has there been any question as to the desirability of building a refinery here in connexion with the Mint?—I think I may say the Deputy-Master has been considering the advisability of putting in a small plant so that small quantities of gold may be refined, but the building does not lend itself to anything big. It could only be a matter of dealing with a small quantity of rough gold. The possibility has been considered that the Rhodesian mines might wish to send rough gold to this Mint. Whilst the Rand Refinery treats the bulk of the gold output of South Africa, there is no need or justification for the provision of a large refinery. The Union Government will have to provide the money for the building and any additional equipment, so that it rests entirely with the Union Government whether we have a small refinery.

17. Would such a refinery pay?—It is correct to say that a small plant consisting of perhaps one or two furnaces could be installed in the present Mint, and that it would be a convenience and that it would not be unprofitable, because the staff is here. It is capable of doing such work, and has to be paid whether coinage work is available or not. The cost would not be great, but it would not be possible to do anything big without a larger equipment and an extension of the Mint premises.

18. Upon what terms is gold received for coinage as regards the time necessary for coinage and the charges for the coinage?—The Mint charges for assaying and coining are: for amounts up to 500 ounces, 1d. per ounce; for amounts exceeding 500 ounces, 1d. per ounce; and delivery is to be made not later than the 14th day after receipt.

19. Are those charges sufficient to cover expenses in the coinage of the gold?—This question was fully and very exhaustively gone into some time ago in the London Mint. Comparing the result then arrived at with present-day costs, it is considered that the Mint would not quite cover expenses of coining. The figure in question for the total cost of minting coinages of gold was 0.32d. per piece. On the Union coinage charges for over 500 ounces the loss would therefore be about 0.07d. per piece.

20. The cost of minting has gone up?—We have considered it in connexion with silver just lately. I do not think that the cost of coining gold throughout the year on an output of well over £12,000,000 would be appreciably more than that.

21. (Dr. Vissering.) You have not always sufficient work, but you have to pay the whole staff?—We are trying to develop work in the Mint which will fill up gaps of that kind. We are doing medal work; also the preparation of metal badges and metal buttons for Government departments and the Defence Force.

22. For whom besides?—Only for Government departments and municipalities?

23. (Professor Kemmerer.) Are you in a position to distribute the work of coining silver and bronze coins throughout the year so as to enable the Mint to meet promptly the demands for gold coinage whenever they arise?—We have been in the position so far of being able to supply the demands of the banks for silver
and bronze coin. If we have to undertake a big gold coinage, it might be necessary for us to carry a bigger stock of token coins, silver, etc.

24. That would mean the purchase of silver bullion?—Yes.

25. Is the gold coinage similar to the British?—Yes, in weight and fineness.

26. The South African sovereign is the same design?—Entirely the same. The working dies are produced from the master die in England. We have a small "S.A." above the date to indicate the origin.

27. Is it acceptable in England as well as here?—Quite; it is acceptable anywhere.

28. Is the amount charged for the coinage the same in England as it is here?—There is a difference in principle. Generally the Bank of England acts as a distributor. It purchases gold bullion in the London market at £3. 17s. 9d. per ounce standard or over and keeps a sufficient supply of coin. The gold bullion deposited in the London Mint is coined at the rate of £3. 17s. 10½d. per ounce standard.

29. But there is delay?—There is, so far as the Bank of England is concerned.

30. Here will the people with gold bring it directly to you or to the Reserve Bank?—At first, probably direct to the Mint.

31. (Dr. Vissering.) They sustain the loss of interest?—Yes. The Bank of England’s margin of three halfpence per ounce perhaps covers loss of interest during the period of coinage and incidental expenses.

32. (Professor Kemmerer.) Do you know how long it takes to have gold minted in England?—There is no period in the regulations governing this point. The Bank of England generally has a deposit in the Mint, which is retained there until such time as there is a demand for gold coin. The Mint could deliver to the Bank of England at least £1,000,000 a week.

33. You must deliver it in two weeks’ time. Any one in England has the right to take gold to the Mint. What would be the comparable delay for the public?—All deposits are dealt with in the order in which they are received. Generally, a small depositor in England prefers to sell his gold to the Bank of England for immediate payment at not less than £3. 17s. 9d. per ounce standard rather than await his turn in order of priority at the Mint for the coining of his bullion. Thus the question of delay does not arise in England. Some few years ago one or two of the English joint-stock banks purchased gold bullion in the market at less than £3. 17s. 10½d. per ounce standard and deposited it in the London Mint for coinage. There was very little delay in returning coin, as the Bank of England was not at that time requiring its bullion, previously deposited in the Mint, to be converted into coin.

34. What is your capacity for gold coinage?—The capacity at the moment is about 12,000,000 pieces a year in sovereigns. It would be rather less for half-sovereigns—probably about nine million pieces a year. One section of the plant is at present not of as big capacity as the remainder. The addition of certain machines and equipment would at least double the capacity. The cost of these additional items would not be great, but if a big demand came for gold coins, some increase of staff would be needed. Thus, an output of 24,000,000 sovereigns would be required per annum, it could be accomplished by the outlay of possibly about £2,000 on plant and an increase of expenditure under the Mint annuity for wages and materials, which would not, however, cause an increase in the sum at present voted annually for these purposes by the Union Parliament.

35. If the Union returns to a gold standard, do you anticipate that gold from the mines will be minted in substantial quantities and gold coins exported?—Yes. I understand that some sovereigns will be required, but it is difficult to say how many. I believe there is a possibility of sovereigns being required to be minted for export to India in addition to bar gold exports. There is a
feeling that the availability of sovereigns would widen the market for gold in India. The silver rupee is the principal coin in circulation.

36. Is there a large circulation of gold in India?—I do not think there is. A great deal of gold does go to India, but not necessarily in the form of coin—mainly, probably, in the form of bars for the manufacture of ornaments, etc. A supply of sovereigns would, I think, be readily absorbed, because a greater number of the smaller people would buy. They have confidence in the sovereign, because they know it is of a definite standard of fineness and a definite weight. Sovereigns would be accepted without assay being necessary. Probably the export of sovereigns to India would render the disposal of gold rather more easy, as it would facilitate dealings with the little merchant, who would not, however, necessarily hoard them. I consider a large portion of such coin would be melted down for ornaments, etc., but on that point, although I have lived in India for a time, I do not feel able to give an opinion based on recent experience. A branch of the Royal Mint was established in 1918 in Bombay, but solely for the making of sovereigns. The branch was closed in 1919, because the urgent need for sovereigns ceased, and the Currency Commission considered its retention unnecessary. The desire for sovereigns appears to have increased, and there is always the possibility that the branch will be re-established. The Indian Government itself would have to put the proposition forward. Probably there would be a certain amount of opposition, principally in local mint circles, but generally I believe the Indian public would desire it.

37. I do not understand why they should not prefer to have a branch of the Royal Mint there to coin their own sovereigns?—I agree with you.

38. A proposal, I understand, has been made for the coinage here of a fiduciary or token gold coin of the value of 5s. Have you anything to say about that?—I understand that the latest decision is that the token should be of the value of 10s. Personally, I do not think that a gold token coin of the value of 5s. would be practicable. It would have to be very small, unless the gold content was about 25 per cent. only. My personal opinion is that any alloy of gold might possibly be satisfactory for a time, but I am inclined to think from all the information I can get that in the long run it would not retain a good appearance. We are now making experiments and testing different proportions of alloy, and it appears likely that a conclusion will be reached that we should not go below about 70 per cent. of gold.

39. What is your opinion with regard to the desirability of coining a 10s. fiduciary coin in gold?—My feeling at the moment is that a 10s. coin would be a much more satisfactory proposition from the Mint point of view. We could make a larger piece and still leave a reasonable margin of profit. If a token coin of the value of 10s. were made of, say, 70 per cent. of gold, it would be more pleasing and likely to be acceptable to the public. It might, however, be wise to consider the making of a different shape to the usual round one to avoid confusion with the half-sovereign.

40. Years ago a great many coins were made of shapes other than circular, but such coins have now nearly all disappeared?—Yes, and in addition square coins and coins with fluted edges have been made recently, and in large numbers, but of base metal. We have been considering whether it would not be possible to mill the edge of such a coin.

THURSDAY, 11TH DECEMBER, 1924.

Mr. ROBERT EDGAR HILL (examined).

41. (Professor Kemmerer.) What is your present position?—I am chief clerk and accountant, Pretoria Branch Mint.

42. What previous experience have you had?—I joined the London Mint in 1907 as a junior clerk. I was fifteen years in the London Mint and have been two years here.
43. You heard the evidence this morning of Mr. Becklake. Are there any comments you wish to make in the way of elucidating it or explaining it?—No. I agree generally with what Mr. Becklake said.

44. One of the problems that was not touched upon this morning and in which we are much interested is the question of fiduciary silver money—often called token silver coins. Will you explain the present position in South Africa with reference to fiduciary silver coin?—Until the Union Mint began to operate, the silver coinage used consisted of British coin of both .925 and .500 standard and the Kruger coin struck at the Republican Mint. An estimate has been made in the Mint quite recently as to the quantity of silver coin there might be in the country, and it is considered that a total of from three to three and a half millions of silver coin was available as currency at the beginning of the present year of which over two and a half millions is British (including perhaps three-quarters of a million of British coin of .500 fineness bearing dates of 1920 and later), the remainder being new Union coin of .800 fine.

45. Does the Kruger coin differ in weight and fineness from the British coin?—The Kruger coin is identical in weight and fineness with the British .925 standard silver coin. The principal work of the Mint has been to take advantage of an agreement arrived at between the Home Treasury and the Union Treasury, whereby the Home Treasury agrees to the sum of £200,000 British .925 standard silver coin being withdrawn annually by the Pretoria Branch Mint and purchased at bullion value by the Union Treasury, the bullion being used for the manufacture of Union silver coin.

46. That is, they will allow you to buy it so that you can replace an equivalent value in Union .800 fine silver coins at its present value?—Yes, the bullion is purchased at the London market rates. The present arrangement expires at 31st March next.

47. So there is no commitment for a longer time?—No, but there is an understanding that for an additional two years at least the Home Government will allow £200,000 a year to be withdrawn. That period is based on the estimate of the amount of worn coin which the Pretoria Mint calculates still remains in the Union.

48. Would £200,000 be so worn as to be retired each year?—This total may consist of worn and non-worn .925 standard coin.

49. Isn’t it for the whole of 1924 and 1925 that they pay this £200,000?—It has been shifted over to the financial year.

50. That would be from March, 1924, to March, 1925?—The present authority expires at the end of March, 1925, but we are withdrawing coin now for the next year ending 31st March, 1926, for which we have no official authority yet.

51. What amount of worn coin have you withdrawn under the old arrangement of the £100,000 per annum?—At first the arrangement was that we could withdraw £100,000 of reissuable coin and all the worn coin that we could get hold of in one year. During the first year we received £193,000 of reissuable and £99,000 of worn.

52. What is the distinction?—We instruct the banks as to what may be regarded as worn coin. A £100 bag of new coin weighs 364 oz. That is really allowing for a loss of 8 to 9 per cent. in weight.

53. In such a bag there might be various kinds of coin?—Yes. At the banks this coin is received over the counters, is sorted, and British standard coin is sent to the Mint as worn or reissuable.

54. What is reissuable coin?—Coin that has not lost 8 to 9 per cent. of its weight.

55. What is the principle upon which this arrangement is made? Do I understand that those coins were issued by Great Britain and that the profit was realized by Great Britain? South Africa has a coin of its own now which will gradually replace the British fiduciary silver coins in circulation, and to the extent that these British coins are in circulation the South African
Mr. Robert Edgar Hill.]

authorities are prevented from realising seigniorage profits on Union subsidiary coin?—Yes.

56. And this is the machinery for transferring a profit previously realized by Great Britain on the Union of South Africa?—Yes, and it is spread over a number of years. I do not know the number of years. An estimate of the British worn coin in circulation in the Union at the 1st of January, 1923, was for £100,000 reissuable and as much worn coin as we could receive, but from the 1st April, 1924, the authority was altered to £200,000 a year, worn and reissuable, the idea being to save us the time spent in separating the worn from the other British coin. This authority is expected to run till the end of March, 1926. Further sanction will depend on the results of representations made by the Union Government to the Home authorities.

57. It will take a long period of years to withdraw on this basis the two and a half millions of British silver coins in circulation? During that time South Africa would be prevented from putting into circulation its own coins to the extent to which the circulation is supplied by those coins—Yes, that is so.

58. If the British Government should agree to withdraw all of its own silver coins, have you any scheme of replacing these three millions of coin with South African coin?—Yes. The Union is making some profit under this arrangement. We withdraw £200,000 British coin in a year. In fact, South Africa buys it at six-tenths of its bullion value, which is something less than £100,000 and the British Treasury pays over to the Union Treasury the difference, a sum of over £100,000, while this scheme lasts.

59. You say that this coin of the .500 fineness was not included in this arrangement. Can you say why?—The .500 fine coin, which was first struck in 1920, was issued to South Africa merely because the banks needed silver coin, and their demands received the endorsement of the High Commissioner in London. The British Government is naturally averse to meeting the cost of withdrawing coin so recently manufactured at the request of South Africa.

60. South Africa pressed for the coin as any other Government would have done at that time?—Yes, as any other country using British silver coin.

61. If South Africa had acted independently at that time she would have been compelled to pay as high a price for the silver as Great Britain did, or perhaps even higher?—If South Africa had had its own silver token coinage she would have been compelled to buy bullion in the market at the market price, and as silver reached 85d., per oz., whereas the coin was issued at 66d. per oz. only, South Africa would have been compelled to reduce her own standard of fineness, as she could not have afforded to issue silver coins of .925 standard at that time.

62. Then South Africa is no worse off to-day than she would have been had she acted independently at that time?—No.

63. Silver was not at that high price during the whole of the period during which this £800,000 of .500 fine coin was being sent to South Africa?—No. But when the price of silver bullion got down to a normal figure the British Government had got far into the operation of withdrawing the .925 standard coin and replacing it with the .500 standard, and has not so far increased this standard.

64. Has that coin been satisfactory?—There is an objection out here on the ground of its colour. It is not a bad colour when all is said and done. It is merely a token coin, and, providing it keeps its distinctiveness as regards value and retains somewhat its silver appearance, I do not think there can be much serious objection to it. I have not heard of any disinclination on the part of the natives to accept it of. While there are remarks and criticism of its condition in England they are not considered to be very important—more quips of humour than anything else. As a matter of fact the .500 standard of silver coin is probably more
difficult to counterfeit than the .925. For a long while it had nickel in its composition—10 per cent. of nickel, and nickel being a hard metal and difficult to melt there would be more difficulty in counterfeiting the .500 standard.

65. Have you any figures to show with reasonable accuracy the probable circulation in the Union of silver coins of different denominations?—We have some figures. You are speaking of the whole of the subsidiary coins in circulation? Without sending to London we could not get the denominations of the coins issued from the London Mint.

66. During the war years you imported over two millions of British silver coin?—We know the quantities of new coin imported into South Africa each year, but not the values of the different denominations.

67. Do you know whether this new British coin, the .500 fine coins, will wear well? Is there not a heavy coating on it?—(Mr. Becklake.) In the later production of the London Mint the coating of silver has been extremely heavy, and it is understood that will wear for a number of years, but the earlier coating of silver was very thin indeed, and the assayer of the London Mint does not expect that these coins will keep their colour as well as the later ones. As against that, one must remember that as far as wear is concerned the earlier coins of 1920, 1921, and 1922, which contain a proportion of nickel, are considerably harder, and will probably wear longer. The later ones of silver and copper only will not wear quite so well, but they will keep their colour and appearance.

68. Is it not a great inconvenience to the banks to have all these different kinds of coin?—(Mr. Hill.) It is a great inconvenience when it becomes necessary to sort the different qualities; but they are all good coins.

69. You cannot deal with these nickel coins in the Pretoria Mint?—Not at present.

70. Do you have any inconvenience in your operations when a nickel coin gets amongst the others? How do you get rid of the nickel?—We have overcome that. We did get a few nickel coins amongst the .925 standard coins when melting for the Union .800 standard, but lately we have made an arrangement for separating the nickel by the aid of a small machine. We are practically certain now that none of the nickel coins are melted.

71. Have the arrangements you speak of with the Imperial Government in regard to the total amount of worn and reissuable coin been modified recently?—I understand that what was done up to the end of March, 1924, did not count in the new arrangement for the £200,000. The matter is still under the consideration of the British Treasury as to the period they will allow this arrangement to run, and, after the current year's authority has expired, all we have heard is that it was safe for us to presume that the £200,000 a year would run for a year from the 1st of April, 1925, to the 31st of March, 1926.

72. Have you any evidence as to the amount of minor coin in circulation per capita?—We have figures available which would enable us to arrive at an estimate.

73. Will you furnish us with these figures. I am anxious to find out the circulation of the country as to the amounts of the different denominations?—Yes.

74. Is there too much silver in circulation now?—We have no reason to believe so now, because whereas over a year ago the banks were quite willing to deposit their old silver coin with us for conversion into new without wanting an exchange immediately, we find now that we cannot withdraw ten or twenty thousand of old coin without the banks requiring more or less immediate replacement.

75. Have you made an estimate of the amount of fiduciary silver coin and minor coin per capita?—Yes. The figures will be furnished to the Commission.

76. There is always a danger that a Government may issue an excessive amount of silver coins, since the more silver coins it issues the greater the profit it makes; and if there is no arrange-
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ment for the redemption of these coins, extreme caution needs to be taken not to issue in excess of what can readily be absorbed by the public?—Yes.

77. It will be desirable then to get information, if we can, of what amount of fiduciary coin should be issued in excess of so much per capita without any danger of depreciation?—Yes, of token coins.

78. Do you think it desirable that the law should provide that fiduciary coins should not be issued in excess of what can readily be absorbed by the public in South Africa without any danger of depreciation?—Yes.

79. If a bank wants more silver coin it must present notes or gold certificates?—It must pay face value.

80. And when it pays for it, you do not provide for any special redemption fund?—No.

81. If a Government were very anxious to make a profit and wanted to put a large amount of silver into circulation to make that profit—I am not assuming the South African Government would do such a thing—how would the public get rid of such an excess of silver coins? Of course if a Government were to arrange to receive this money, as many Governments do, in unlimited amounts, in payment of all taxes, that would retire much of the excess?—I do not know whether in practice the Revenue officers object to receiving payment of taxes in silver coin in excess of the limit of £2, but in the absence of a law preventing banks ordering any quantity of token coin they wish, the inconvenience and loss of interest following an over-ordering of coin falls on their own shoulders, and in this way acts as a deterrent. (Mr. Becklake.) I think it might be well to inform you that the Deputy-Master of the Mint and the Treasury have ever before them the need of preventing an over issue of token coin. The Indian Mints at present are making no coinage at all, and their vaults are full of rupees which they cannot dispose of.

82. These were some of the points we wished to discuss with you. If you have any other point that you think would be helpful to us we would be glad to hear from you now or later on, and Mr. Hill will give us the figures mentioned. If you do not set aside a redemption fund, there is a great deal to be said in favour of being careful to put very rigid limitations on your circulation and to provide for the receipt of such money in unlimited quantity—but that is an open question. In some countries no fiduciary coin is issued except at the request of the central bank, but the Government could issue it at any time. (Mr. Hill.) There is nothing in our Coinage Act prescribing or limiting the issue of token coin. The banks have shown a disposition to turn to the Treasury for assistance when they have a surplus of coin.

FRIDAY, 12TH DECEMBER, 1924.

Dr. Andries Johannes Bruwer, Dr. Michiel Hendrik de Kock, Mr. Henry Eardley Stephen Fremantle, Mr. Frank Joseph Fahey, and Dr. William Arthur Caldecott (examined).

83. (Professor Kemmerer.) I believe you gentlemen are here representing the Board of Trade and Industries?—(Dr. Bruwer.) Yesterday afternoon when we were busy working at the tariff a telephone message came through asking us to appear before the Commission. Of course it was impossible for us to draw up a memorandum in detail, so the only evidence we can offer this morning will be of a very general kind.

84. We would like to ask what this Board is?—The functions of the Board are very wide; in general we have to deal with everything in connexion with the development of the natural resources of the country. In particular we have to deal with the tariff, the receiving of requests from the different industries asking for tariff assistance, financial assistance, etc. These, I
think, comprise the main functions of the Board. It corresponds to a certain extent with the United States Tariff Commission. I am chairman of this Board.

85. What experience or training have you had in the field of finance?—I am a graduate of the University of the Cape of Good Hope (1915). I left here in 1919 to study in the United States under Professor Allyn Young. In the United States (Harvard and Pennsylvania) I took the M.A. and Ph.D. degrees in commerce and finance. Before I was appointed to the Board of Trade and Industries I was the manager of the Commercial Service Department of the Standard Bank of South Africa, Limited.

86. You understand the nature of the problem that has been placed before us? The specific question is whether it is advisable for South Africa to return to a gold basis on 1st July next in accordance with present legislation and independently of Great Britain. Do you believe that South Africa should return to the gold standard on 1st July, 1925?—Yes.

87. Will you give your reasons for believing so?—Of course, as I said, it is difficult for me to state the nature of my reasons in any great detail. The first reason why I think we should return to the gold standard is because of the fact that we are a gold-producing country. There is a considerable agitation in evidence to-day in favour of currency regulation and price stabilization, and it is believed that we can do without gold reserves in banking. To think for one moment that the United States, for example, should discard the use of gold as a reserve for its currency and credit structure seems to be almost impossible.

88. One can see why a strong demand for gold is in the interests of South Africa, but after all the world is naturally desirous of economizing the uses of an expensive article like gold as much as possible, and I do not suppose the world at large is so much concerned with the welfare of South African gold mines as it is with economies in the use of gold?—It is hard to say, but yet it is a logical step that the greatest gold-producing country in the world should return to the gold standard. You know the history of California, which stuck to the gold standard right through the Civil War. It might not have had any appreciable effect in bringing the United States back to gold, but it seems to me that it was a very logical step; and if South Africa did go back, her example might act as some inducement for other countries to do so. South Africa has been very near to the gold standard for some time.

89. Canada is back practically to gold parity?—So are we theoretically, and our currency is quite sound. In this connexion I would like to point out that as far as South African exchange rates are concerned there is only one quotation, viz., London on South Africa. There are no direct quotations for South African exchange in New York or Berlin or Paris, for example.

90. How are the South African rates fixed?—By the South African banks.

91. How do they fix them?—As a matter of fact I do not think they can explain the process themselves. The usual statement is made that the rates of exchange are fixed according to the balances of the banks accumulated in London. These rates remain fixed sometimes for six months at a time. As far as the balances accumulated in London are concerned I am very sceptical, because of the fact that South Africa has to have a "favourable" balance of trade in order to meet "invisible" claims against her in the form of interest on capital invested here, shipping freights, marine insurance, and so forth. This chart which I produce indicates the fact that South Africa had an "overturn" in her trade balance as early as 1884. After that time it was essential for the country to export more than it imported. But the "invisible" claims against us are so heavy and our "invisible" claims against the world are so light that we have to have a
substantial "favourable" balance of trade every year in order to make our equation of international indebtedness balance.

92. Have you any information as to the amount of foreign capital that has been invested in South Africa from year to year during recent years?—There was a calculation made by Sir George Paish in this connexion in 1910. If you wish I can put the document in your hands. Anyway, I am of the opinion that the average annual amount of capital, including net Government loans, invested in South Africa does not exceed £10,000,000.

93. If the Union remains on a sterling basis it is argued by some that it may encourage the investment of British capital in South Africa; and it is said that if she leaves sterling and acts independently such action might lead to a considerable export of capital from South Africa. On the other hand, there are those who claim that a return to the gold standard would restore confidence in South Africa and induce capital to come into the country. It would be interesting in that connexion to know the movement of foreign capital during recent years?—The capital invested here is mostly British. South Africa is not so well known to America, for example, as it is to Britain. On the whole, however, I, too, am of the opinion that currency stability will encourage capital investment. Another reason why I feel that we should return to the gold standard is this: I am mainly interested in the industrial development of the country. A paper standard or inflation has a tendency to encourage speculation and gambling. We have instances of that often coming before our Board. People come along with the plea that they started an industry in 1918 or 1919, i.e., in the "boom" time, and in view of the great depreciation later on, which they had not provided for, ask for financial or tariff assistance. It seems to me that one of the most effective remedies against such a state of affairs is a currency which will provide the stability necessary for business men to make their plans in advance.

94. We understand that the great bulk of the trade of the Union is with Great Britain. Then, as far as South Africa's foreign trade is concerned, a stable rate of exchange with England is desirable? England is of much more importance to South Africa than America. A stable exchange with England is, therefore, of much more importance to South Africa than a stable exchange with America, a country with which South Africa does comparatively little direct business?—We do not have that stability. I do not know whether you have seen this table placed in my hands by Mr. Middleton. From that it seems to me that we do not have the stability which is talked about. (Dr. De Kock.) We have already deviated from sterling to an extent of 8 per cent. The main point is to determine the true rate between Union and English currency. We have complaints from the gold mines that the banks have raised their rates unduly. (Dr. Bruwer.) We in South Africa have a fully developed system of banking. We have a reserve bank, and we keep an adequate gold reserve in order to stabilize our currency, and if now we are linked to a sterling basis it means that we not only ignore the state of our banking, of our foreign trade, and of our public finances, but we also ignore the demands of our industrial and economic life.

95. What sort of instability do you have in mind?—You have two factors affecting the value of our currency, viz., the nearness to or distance from the gold basis of our currency and the balance of trade. Exchange rates between South Africa and London are determined on a very arbitrary basis, as pointed out before. As long as we have no exchange quotations in the other money markets of the world, but in London only, the banks will continue to determine South African exchange rates on the basis of fluctuating balances in London. In addition to that factor you have the violent fluctuations that take place between New York and London. If we are linked to a sterling basis it can only be expected that this will continue to take place.
96. Why would the ups and downs of sterling in New York have such an effect upon your exchange here on London?—I do not quite see your point. (Dr. De Kock.) The instability may be due to the fact that we do not know what the British Government is going to do. If we knew that the British Government will return to the gold standard in the near future then there will be no great instability.

97. Early last year there was a big decline in the gold value of sterling. The average exchange rate in New York on London was $4·696 for March, 1923, or below gold parity. That is approximately the rate to-day. But in April, 1923, there was a reaction, and by January, 1924, the average rate had declined to $4·259—a point 9-3 per cent. below the March, 1923, figure, and 11-8 per cent. below parity. The present rate of sterling exchange is approximately 31 per cent. below gold parity. If sterling advances toward parity during the next six and a half months at the rate she has been advancing since January last, or even at half that rate, it will be at or near parity by 1st July next, and, if it continues there our problem will be largely solved. But suppose it should again turn round now as it did in 1923 and decline rapidly, what effect would that have on South Africa's trade in case South Africa should go back to gold on 1st July next?—(Dr. Bruwer.) The answer is in the negative, since such a depreciation in the value of sterling will involve a higher price for all England's imports, and there is no reason why an essential raw material like wool, for example, should suffer.

98. Your principal exports are gold and diamonds?—Yes, and wool.

99. I find that for the thirteen years 1910-1922 inclusive gold and diamonds represented about 65 per cent. of your visible exports. Where did these diamonds and gold go?—To the London market. London is the immediate destination, but the great bulk of them are ultimately sold in America.

100. Whither does your gold ultimately go?—Mainly to India, United States, Japan, and the Continent of Europe.

101. In recent years most of it has gone to America?—Yes.

102. The Indian exchange rate has been for some time fairly stable in terms of gold in the neighbourhood of sixteen pence gold or about thirty-three cents U.S. average to the rupee, has it not?—I believe so.

103. Your diamonds go chiefly to America?—Yes.

104. Your gold goes chiefly to America?—Yes.

105. Both, however, go by way of London?—Yes.

106. How is the ultimate price of your diamonds fixed?—By the Diamond Syndicate in London. They control the supply.

107. Who controls the demand?—Lately it has been America.

108. The market price of your diamonds then is to a great extent determined by the demand for diamonds in America and by the supply that is fed out by the Diamond Syndicate with headquarters in London?—Yes.

109. If the gold and diamonds go to England and then to America their final market is presumably gold-standard America?—Yes.

110. If your exchange were to be held up to sterling and you were to continue to sell the bulk of your gold and your diamonds in America by way of London you would not get away from an unstable exchange in marketing these products, you would merely shift the instability one step further in the marketing process. You might have a stable exchange with England, but inasmuch as the prices of your two chief export products are determined in the United States, you would suffer the inconveniences of an unstable exchange between London and New York. If you should tie up with the gold you would have a stable exchange with the market in which you sell ultimately the major part of your visible exports?—That is the point that I tried to develop.
Dr. Andries Johannes Bruwer, Dr. Michiel Hendrik de Kock, Mr. Henry Eardley Stephen Fremantle, Mr. Frank Joseph Fahey, and Dr. William Arthur Caldecott.]

111. We would like to hear any other reasons that you may have for a return to the gold basis— I have given some of the more important reasons. If we return to the gold basis, it might encourage the investment of capital in South Africa by countries outside of Great Britain. It is unsound that sentiment should be the guiding factor in the investment of capital. If we float a loan in London it is over-subscribed in a few hours' time. This is not business. The only way to get a true indication of the position of South African credit will be to throw the doors open to all countries.

112. Aren't the doors open to all countries now?—Yes. But our vacillating currency policy is not conducive to the investment of "foreign" capital in the Union.

113. South Africa borrows in London to a great extent?—Yes.

114. Why?—Mainly because it is a colony of a country that contains such a powerful money market as London, and on account of sentimental reasons and the Colonial Stock Act.

115. The latest index numbers available for wholesale prices (Board of Trade, September, 1924) show that the price level in Great Britain was 67 per cent. higher than it was in 1913, and the October figure for South Africa was 33 per cent. The premium on gold in London was about 5 per cent. Sterling was at a discount of 6 per cent. If the prices were properly adjusted immediately before the war on the basis of equilibrium, and if England were now on the gold standard, you would expect her price-level to be about 50 per cent. higher now than it was in 1913, as is that of the United States; and allowing for a depreciation in the gold-value of England's currency as measured by exchange rates in October, and of about 5 per cent., you would expect her index number to be 150 plus 5 per cent. or 157½. It actually was 167 as we have seen. The price-level in Great Britain has, therefore, not declined in proportion to the appreciation in the gold-value of the £1 as measured by the New York exchange rate. Prices in South Africa, however, have declined far below the level represented by the gold exchange value of the South African pound?—Yes.

116. I have been looking at some of the figures published by the League of Nations with regard to the extent to which prices in different countries have declined toward the 1913 level. Out of the twenty-six countries cited, arranged in the order of their approximation to the price-level of 1913, South Africa is first; it stands at the top of the list. That would seem to bear out your statement that South Africa is pretty nearly finished with deflation, if not entirely so?—Yes.

117. How do you explain the fact that the price index number in South Africa is so low as compared with other countries?—I would not risk any explanation.

(Dr. De Kock.) The 1913 basic index number of 100 represented a fairly high cost of living, owing to the fact that the prices of many essential commodities were determined primarily by the cost of importing those commodities; and consequently the comparison between the index numbers of 1913 and 1924 does not reflect the true state of affairs. In 1913 an Economic Commission was appointed by Government for the express purpose of investigating the conditions governing the high cost of living.

118. Do you think that for the base period of 1913 or early 1914 prices in South Africa were abnormally high?—Yes. In South Africa we were living largely on imported goods.

119. You say that South Africa is living more on its own products than it was in 1913?—Yes.

120. Can you give us any evidence on that point?—The statistics of imports and exports show that a large number of essential commodities, such as beef, mutton, bacon and ham, butter, cheese, eggs, etc., which were regularly imported in fairly large quantities prior to 1914, are exported to-day.
121. I would like to ask you a few questions in regard to the Reserve Bank. What do you understand to be the proper functions of the Reserve Bank here?—(Dr. Bruwer.) As far as I can see if we had had a Reserve Bank in 1914 it might have done a good deal to curb the inflation that took place between the years 1914 and June, 1920. The functions of such a bank are to act as a reserve for the other banks and to rediscount bills. You are dealing here with a very small institution which is trying to force itself upon an enormous institution like the Standard Bank, for example. The Reserve Bank does not rediscount to a very great extent. The National Bank was in a bad way about a year ago, and the Reserve Bank had to step in and rediscount a good many of its bills. There are only two or three banks here which would naturally rediscount with the Reserve Bank. One of these banks is very large and so strong that it is not likely to call upon the Reserve Bank very often, and even the others would only call upon it in times of emergency.

122. How can the Reserve Bank live and pay expenses if the other banks borrow from it only in times of emergency and if the Reserve Bank itself does not deal to any extent with the public?—It is rediscounting bills, but I do not know to what extent. I do not know what the feeling is. I do not know if it is buying foreign exchange. It will take a long time to educate the people of this country to the bill system.

123. There is some complaint of the wide margin exacted by the banks between buying and selling rates of exchange, and it has been suggested that the Reserve Bank should force down that margin. It is urged that it should come more actively into the open market than it has done in the past, and that the only way by which it can serve the South African public effectively is to take an active participation in open market operations?—That is something that I have been pleading for ever since the establishment of the Bank. It might influence the trend of deflation to a great extent and alleviate the burden of extremely high rates of interest as well.

124. If the Reserve Bank should reduce its discount rates below the other banks' rates and offer to do business with the public, would the South African public take advantage of this opportunity?—Possibly. I think it would be an important factor. At the present time the discount rate of the central bank has not much influence, due to the fact that it does not go into the open market.

125. Suppose the Reserve Bank comes into the open market and begins to deal more directly with the public, will this give more favourable rates?—Yes.

126. Do you think the public would come in?—Yes. I think so. It will take a little time of course. Many of the merchants are still dependent on the commercial banks, and there will be a period of transition.

127. I have heard it stated that when the Reserve Bank was established there was a gentlemen's agreement made to the effect that the bank should not compete with other banks?—That was the intention of the Act, I think.

128. How can a Reserve Bank properly protect the public in the direction of assuring the public fair and reasonable rates if it is not able and willing to go into the market and force favourable rates when conditions require?—It cannot do so in my opinion.

129. Have you any other suggestions to make?—The public will feel deeply indebted to you if you can devote some attention to the statements that our currency is to be independent of Great Britain; then there is the question of the margin between the banks' buying and selling rates; the question whether a favourable rate of exchange is a tax on the country's exports; the question of
Dr. Andries Johannes Bruwer, Dr. Michiel Hendrik de Kock, Mr. Henry Eardley Stephen Fremantle, Mr. Frank Joseph Fahey, and Dr. William Arthur Caldecott.)

how far a return to gold will be of any benefit to the consumer; how far the banks are to blame; and the question of how far the central bank should go into the open market.

130. We are looking for information as to the influence of appreciation and depreciation of the currency in South Africa on wages and as to the extent to which the labouring man has suffered by South Africa's fluctuating currency in recent years. Have you any evidence on that?—Mr. Fahey is closely connected with that aspect of the matter. (Mr. Fahey.) I am in a worse position that the rest of the deputation, because I did not know until fifteen minutes before we came here that I was to be included. I took no steps to prepare anything for you, and therefore I can only refer to the questions in a general way. I would say this, that deflation has affected wages very adversely. We have, moreover, had an artificial deflation of wages in the main industry of the country—the mining industry. By artificial deflation I mean the too great reduction in wages of the mining employees, which took place in 1922 in connexion with the strike.

131. We should be glad to have a memorandum from you on the subject.—I shall undertake to furnish it to you. I should like to say that owing to the deflation of mining wages through the abnormal conditions prevailing in March, 1922, a new factor affecting labour in the country—a new principle—has been put forward, and that is, that whatever wages prevail in the mining industry, these should be the standard of wages and should largely determine the wages in other industries. It has therefore forced that practically the heads of all the industries in the Witwatersrand area accept that in their dealings with their own employees, and we have the remarkable contrast to-day that higher wages are being paid in coastal towns in some trades than are being paid in the mining area. That is a reversal of the history of labour in the last quarter of a century, and I have had experience of South African conditions for that time.

132. When prices and the cost of living rose to their high point in 1920, did wages increase proportionately?—No. Wages were always a long way behind. They did rise, but the increase was always well behind the increase in the cost of living.

133. Did the mining people pass on to their labourers any of the benefits they received from the gold premium?—That period was marked by the most conciliatory attitude of the mining industry towards its employees. The man-power of the country was less than it was formerly and the highest production was wanted, and there was nothing in the nature of serious industrial trouble at the time.

134. After that, wages did not rise so rapidly as the cost of living?—No. Perhaps in the Johannesburg mining area they did eventually approximate to the rise in the cost of living, although they were behind in getting to it, but in other parts of the country wages as a whole never reached the rise in the cost of living.

135. Do you maintain that labour suffered by the rise and then suffered again by the fall?—Yes, and I say with a due sense of responsibility that wages, especially in the inland area, must be increased, and while of course I cannot pretend to give any advice on currency questions as such, I should say this, that if a return to the gold standard, which I personally think, is the right course to follow, means that the labour of the country, especially in the mining area, is to be told that it must take fewer sovereigns because of the alleged increased purchasing power of the pound, I would not be surprised if that would lead to marked unrest.

136. You claim that labour suffered by inflation and did not benefit by deflation?—Yes. However much the general deflation
in currency was you have the additional factor that by industrial force wages were lowered.

137. In discussing that question a few days ago with a certain gentleman, he made the claim that labour had not suffered much from the rise in prices and had not been affected very much by the subsequent deflation. A substantial part of wages, he said, were paid in produce and not in money—"I am afraid that the gentleman was dealing with native labour. I do not pretend to be able to speak of native labour.

138. We have wage figures for white labour, but, as I recall, the figures do not include data for native labour. Is there any way of knowing to what extent native labour has benefited or suffered by inflation and deflation?—You will find very little that you can rely upon. Nothing in the way of organization of native labour would be tolerated. (Dr. Bruwer.) There are statistics for non-European labour in the various industrial censuses. (Mr. Fahey.) Personally, I would not place much reliance upon available statistics.

139. You made a statement to which I wish to return, to the effect that there was a sort of understanding that wages in the mining industry should determine the scale of wages for other industries?—Yes.

140. Isn't that a rather strange doctrine? South Africa has been on the gold standard until comparatively recently, and presumably it is going back to the gold standard some time. In gold standard countries the price of gold does not vary or does not vary appreciably. In America it is always the same, i.e. $20.67 per fine ounce. When the supply of gold on the market increases relatively to the demand, no matter how much the increase may be, the price of gold remains the same, but all other prices tend upward, including the prices of mining stores, the wages of mine labour, etc. These increases in the costs of mining gold tend to force a curtailment of production. When the supply of gold falls off relative to the demand, the price of gold remains just the same, but prices of all other commodities and wages tend downward, and as they tend downward the costs of mining go down and profits in gold mining tend to rise. This stimulates increased gold production. Rising prices for commodities resulting from a relatively large production of gold stimulate an artificial prosperity in all industries save gold mining, and tend to depress the gold mining industry, while falling prices resulting from relatively small gold production tend to depress other industries and to stimulate the gold mining industry. In other words, you have opposite conditions in the production of gold to what you have in connexion with any other commodity as regards the effects of movements in the price level. When you produce too much of any other commodity in the market, the price of the commodity goes down, whereas in the production of gold the price of gold does not go down at all, but the price level rises and mining costs go up. The period of a falling price level is the period when the gold people are having their innings, and the other people are suffering through the depressing influence of falling prices, and vice versa. If that is true, the policy of trying to fix the scale of your other industries by the scale of wages in the mining industry would seem to be a very unsound policy and impossible to carry out indefinitely?—I think you have to look at the local conditions. The result of the 1922 trouble was that labour organization was smashed and is only now recovering, and I would go as far as to say that there will never be any rise in wages corresponding to the rise in the cost of living unless labour is properly organized. That has been the experience here.

141. Don't you think that competition for labour from other industries would affect the position?—No, because of the underground labour. It would, as far as surface labour is concerned,
but the underground labour is of a type new to industry. It is a change from the time when we had the Cornish miner, but now the men of the country, the Afrikander, are being put underground.

Even though he go back to the work he did before—I think that is explained by what might be called the landless people in the country, the agricultural population, losing their land and flocking to the towns. We have a poor white problem. The type of labour is closely allied to that, and a South African miner is now being trained.

143. During the war, in America the prices of practically everything went up. There was one notable exception, however, namely, gold. The price of gold could not rise because the American mints were always open to the free coinage of gold at the standard rate, and gold coin could always be converted into bullion by the simple process of melting. The value of gold, however, depreciated greatly, because as the price level rose it took ever-increasing quantities of gold to buy the same amount of goods. In May, 1920, the purchasing power of gold in America was only about two-fifths what it was in 1913—Even although there was an increase in the purchasing power of the sovereign, there would not be satisfaction, because, I believe that, when labour organization permits, there will be a demand for increased wages in the mining industry. I believe that any attempt to reduce wages because of a return to the gold standard will lead to trouble.

Even with the present wages a man cannot maintain his family. That is the case with a lot of married miners.

144. Do you think that the type of labour you refer to—the underground workers—could be absorbed in other industries?—In answer to that I should say that if the mine owners had a free hand and could ignore public opinion, the present labour in the mines could largely be replaced by natives. The ratio of natives to whites has been increased recently. Further, we have thousands of men in this country to-day who could be trained to be efficient miners who are unemployed or on relief works. That condition is largely owing to the lack of education or partly owing to that. I do not see, therefore, that there would be competition for any white labour that might be forced out of the mines. If South Africa goes back to a gold basis there would be great opposition on the part of labour to any attempt to reduce wages. I am sorry to say that, but unfortunately that will be the case. We have always had the bogey of the low-grade mines and the threat to close them down when more money is asked. (Dr. Brutver.) The position remains that the cost of living is still about 25 per cent. higher than in 1914, while the cost per ton, due to mechanical devices which have been introduced, is only 17 per cent. higher. (Dr. Caldecott.) I agree in the main with what has been said, but I think that one point has been omitted. There is a degree of efficiency in the work on the mines now that, irrespective of the amount of money a miner receives to-day, did not exist a few years ago. The labouring man is more efficient. With regard to details on this point we will be able to obtain ample data from the Chamber of Mines. I am speaking of my own personal experience in the industry in which I was engaged for many years. My opinion is that this efficiency is due to the better method of mining. The jackhammer is undoubtedly a great factor. With regard to getting information, I think there is a source of information which will be more reliable than any other, and that is Sir Robert Kotse, Government Mining Engineer. He has all the available data with regard to these matters, and he is entirely unbiased.

145. I wish you gentlemen to understand that we are here for information, and that any material which you may care to submit, and which you think will be helpful to us, will be welcome. This work will require us to be here about a month. Our ears are wide open to any information or any suggestions which you or any one else may care to give us.
FRIDAY, 12TH DECEMBER, 1924.

MR ANGUS WILLIAM CARRUTHERS, Acting Director of Census (examined).

146. (Professor Kemperer.) Your office prepares regularly index numbers covering wholesale prices, retail prices, and the cost of living?—Yes.
147. You have also published index numbers covering wages?—Yes.
148. For how long have you been publishing these index numbers?—The census office was established in 1917, and prior to that time no records of prices either wholesale or retail or for wages—no regular records—were kept. About a year after the census office was established, a beginning was made in acquiring information with regard to these matters and that involved the collection of information for earlier years in respect of which particulars were not available. We have gone back as far as 1890, but our ratio has been taken as from 1910.
149. Why did you take the year 1910 as the base year?—There was difficulty in the first place in obtaining information prior to that date sufficiently reliable and sufficiently extensive to form a basis for comparison with subsequent years.
150. In a number of countries they have taken the year 1913 as the base year partly because it is desirable in so many cases to have a comparison of pre-war standards with subsequent movements and partly because 1913 is looked upon as a fairly representative year. One therefore naturally asks the question: Why was 1910 selected instead of this more usual year 1913?—It was mainly due to the fact that Union was established in 1910 and it was considered desirable to get a complete record as far as possible from that date.
151. Will you describe briefly and in a general way the main elements in your procedure of collecting wholesale prices and preparing index numbers, not the details but the important features?—The wholesale prices are obtained from wholesale firms in Capetown, Port Elizabeth, East London, Durban, and the Witwatersrand. An average of the coastal prices is taken, and that average again is averaged with the Witwatersrand figures.
152. You give the four coastal towns together the same weight as you do Johannesburg?—Yes. That was the system decided upon by the statistical council when the matter was discussed.
153. Did the council advance any special reason for adopting that weighting?—Some difficulty was experienced in deciding what weights should be given. In the case of wholesale prices population cannot be taken as a basis. The towns mentioned are centres for the distribution of goods to different parts of the country, and it would be rather difficult to arrive at any system of weighting which would not be open to question.
154. What criterion did you use in adopting the one and one basis, namely, weighting the three coastal towns collectively as equivalent to Johannesburg?—It was more or less arbitrary, except that Johannesburg is the most important centre in the Union. It is also the most rapidly growing centre, and some consideration was given to what was likely to happen in the future as well as to conditions actually existing when the system was put in force.
155. Is there much difference according to your observation in the movements of relative prices in these different towns?—No, not a great deal.
156. You think probably it would not have made much difference if you had given each of the five centres equal weight?—I do not think so.
157. How do you collect your figures as to prices?—We have a printed list of articles arranged in classes. These lists are sent out to the more important wholesale firms in the five centres already mentioned.
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158. You collect all your prices directly from the wholesale firms?—Yes.

159. And they are supposed to be the prices at which they are doing the bulk of their business?—Yes.

160. On certain specified dates?—Yes. We collect them quarterly.


162. The prices which you obtain—are they averaged together or do you try to take the price which is the predominant or prevailing price, say the modal price in statistical phraseology?—The predominant price or the price which is nearest to the predominant price. Where we have, say, four prices and three are identical then we take the price which is quoted three times. If we have four different prices, we average them and take the actual price which is nearest to the average.

163. So in every case your price is an actual price?—Yes.

164. How many commodities do you cover?—188.

165. Do you vary that number from time to time?—Very seldom. It may be that in certain instances we may not be able to get a quotation, but that has happened seldom. It was proposed to renumber the list, but no revision has yet taken place.

166. So practically your index figures cover the same commodities during the whole period?—Yes.

167. What classes of commodities do you include?—Eleven classes altogether: (1) metals; (2) jute, leather, hides, and skins; (3) grains, meal, etc.; (4) dairy produce; (5) groceries; (6) meat; (7) building material; (8) chemicals; (9) fuel and light; (10) soft goods; (11) miscellaneous.

168. What is your system of weighting these different groups and the different commodities within each group?—We have no system of weighting the groups as such. We weight the commodities and then base the index for each class on the results obtained by weighting each individual item. The final index is obtained in the same manner.

169. Your general index number is a combination of individual items?—Yes.

170. How do you weight these individual items?—According to the average national consumption over a period of three years. The figures for the national consumption are made up from the imports, exports, and production—the agricultural and industrial production.

171. Do you find this system of weighting fairly satisfactory?—Yes; I think so.

172. Do you include in metals any gold?—No. These wholesale indexes relate only to goods consumed in South Africa.

173. Gold nowhere appears?—Not in the index number of wholesale prices, nor do wool, mohair, and diamonds that are exported. A small proportion of wool is consumed in South Africa.

174. Gold and diamonds during the last 13 years represent about 65 per cent. of your total exports?—Yes. The inclusion of gold would be misleading for the purpose which these indexes are intended to fulfil, i.e. to record the fluctuations in the prices of goods consumed in South Africa. In the index numbers of import and export volume and value, gold and diamonds are included.

175. Gold, then, is not included in any of your price indexes?—No.

176. Will you tell us now something of your method of getting retail prices and of computing your index numbers of retail prices and of the cost of living?—Retail prices are collected from over 700 retail dealers in 62 towns in the Union every month.

177. You collect them from particular cities in the Union?—Yes, from the nine principal towns and from some 50 of the smaller towns in addition.

178. How do you weight them?—According to the national consumption. Originally the retail indexes were calculated on a family budget basis. Particulars regarding family budgets were collected in 1913 by Mr. Hill, Assistant Superintendent of Railways.
The results of the inquiry, which were published in the Supplement to the Report of the General Manager of Railways and Harbours, 1913, formed the basis adopted by the Cost of Living Commission in the first instance. From January, 1921, the national consumption basis was introduced.

179. How do you compute national consumption for this purpose?—From statistics of imports, exports, and production during the period 1917 to 1919. The question of adopting a moving base, as in the case of wholesale prices, will be considered by the Statistical Council.

180. What is this national Statistical Council?—It is a body consisting of eight non-official or statutory members and, at present, six official or assessor members, who have been appointed under the Statistics Act to advise the Government in matters connected with statistics. The full council meets fairly regularly—about four times a year. Meetings are held in Pretoria, and also once a year at Capetown, Durban, and Johannes burg.

181. How are these non-official members appointed?—By the Government on the recommendation of the council.

182. And you have the benefit continually of this body in connexion with the preparation of your index prices?—Yes. Matters of this kind are dealt with by the full council. Certain sub-committees of the council have been appointed, but none of these deal with the price indexes.

183. Your retail index prices cover how many commodities?—We collect the prices of a large number of commodities, but only 22 of these are used in the calculation of price indexes; in addition, rent and electric light—24 in all.

184. Where can we find a list of these commodities?—Pages 352 and 353 of the Official Year Book (No. 6).

185. Can you furnish us with the later figures for wholesale and retail prices?—Yes. I think these have already been supplied to the Treasury.

186. Will you furnish the Commission with tables and graphs showing the movements of these various index numbers from the date at which they begin, down to the latest date for which they are available?—Yes.

187. How is your cost of living index number made up?—It is made up of food, fuel, light, and rent. We also collect information with regard to the price of "sundries," including such things as clothing, hardware, etc.

188. What is your method of weighting these various items in order to obtain the cost of living?—For the combined index we take food, fuel, light, and rent as representing about two-thirds of the normal household expenditure, and sundries as representing one-third.

188A. How do you weight food, fuel, and light?—As far as food and fuel are concerned, on the national consumption basis. Electric light is based on the estimated consumption by private households in the principal towns—which can also be taken as a national consumption basis.

189. You publish also a wage index number I believe?—Yes.

190. Does that cover white labour and native labour also?—White labour we have been dealing with for some time. As regards coloured labour we have not gone into the matter in the same detail, and figures have only been prepared recently.

191. You have an index number of coloured labour of recent date?—Certain particulars are given in the Year Book. There only the average wages of coloured males are given for a specific date in 1922.

192. You have not kept that up?—Yes, we now have figures for 1921, 1922, and 1923.

193. What native labour does that cover?—Engineering, building, printing, manufacturing, trading, municipal services, and unskilled workers.

194. Have you any idea how many labourers that would cover?—The numbers of non-Europeans employed in the classes of occupation for which wage statistics are collected are approximately as
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follows:—Engineering (excluding railway, mine, etc., workshops), 4,000; railway, etc., workshops, 13,000; building, 11,000; printing, 2,500; manufacturing (limited number of industries only), 45,000; trading 16,500; municipal, 31,000—total, 123,000.

195. Do you collect these figures directly from the employers in the various cities?—Yes.

196. Does it cover only money wages?—Money wages with an allowance for other privileges such as food, lodging, etc. I can supply you with a copy of the form which is used for the collection of these statistics. This will show exactly what information is asked for.

197. I have been rather surprised in comparing your South African index numbers of wholesale prices with the index numbers of certain other countries. In this volume prepared by the League of Nations, entitled "Memorandum on Currency, 1913 to 1923" (pages 5, 6, and 7), I find a list of twenty-six countries mentioned for which the quarterly movement of wholesale prices are given for the period 1920 to 1923 on the basis of 1913 prices as 100. Of the twenty-six countries mentioned, South Africa's price level, as compared with the price level of the period immediately preceding the war, is the lowest of all the countries mentioned. For December, 1923, the index number given for South Africa is 131, for the United States 151, and for the United Kingdom 163. I note that the index number of wholesale prices for South Africa for July of this year as published in the Federal Reserve Bulletin of November, 1924, is given as 125. In other words, the figures seem to show that as compared with the pre-war price level, the price level in South Africa is lower than the price level of any other country mentioned in this group of twenty-six countries. Have you any explanation to make as to why the price level is relatively so low here as compared with other countries when studied from the standpoint of the pre-war level?—It may be due to some extent to the manner in which the index numbers are made up: that is to say, to differences in the classes of articles which are included in the list of commodities dealt with in computing these index numbers.

198. A gentleman was explaining this the other day, and he stated that the reason was probably that gold was included in your index numbers, which naturally brought them down, but you state that gold is not included, so that that is not the explanation?—No. Gold is not included.

199. Another gentleman stated to-day that he believed that your prices at the time of the base year, 1913, were abnormally high as compared with those of other countries. Is there anything in that explanation?—It was generally understood that before the war South Africa was one of the most expensive countries to live in.

200. Why should its relative position now be changed from what it was before the war?—After the war began South Africa was forced to produce more for its own consumption.

201. You think that South Africa is now more dependent on local production for its own consumption than before?—There is no doubt about it in some respects. Our manufacturing industries have expanded to a considerable extent, and the production of foodstuffs has increased as compared with pre-war times.

202. Agricultural products figure fairly largely in your index number?—Yes.

203. And these products rose pretty high during the war period, and since that time they have dropped considerably?—Yes.

204. I note that your prices reached pretty high figures during 1920 and 1921, and that you have apparently gone through a very vigorous price deflation?—That is so.

205. The United States is a free gold market, as you know, and wholesale prices in the United States are now about 50 per cent. higher than they were in 1913. That would seem to show that the purchasing power of gold in the world at large is about two-thirds of what it was in 1915. If your relative position now as compared with 1913 represented that same change in the value of
gold your index number should be something like 150 plus the percentage represented by the premium on gold. —Yes.

206. So your price level on that basis should be slightly above 150 if you should reach the same relationship to pre-war prices as they have in the United States?—Yes.

207. The presumption would seem to be on that line of reasoning that your price level here is abnormally low and out of equilibrium with the international price level. Is that true?—Yes.

208. You have no other explanation to make of why this level is so low now in South Africa? That is one of the problems which seems to be rather difficult to solve?—No.

209. It would look as if you had deflated not only to the gold standard price level but had deflated below gold price level?—Yes. I take it that the effects of the strike on the Witwatersrand were equivalent to a form of deflation.

210. Can you form any idea from the figures which you are receiving as to how the price level is moving in South Africa downwards or upwards?—The price level was more or less stationary from January, 1922, to July, 1924, with seasonal fluctuations. It rose considerably in October of this year.

211. What is the wholesale for October?—The index figure for October shows an increase as compared with the previous three quarters of the month. It has now reached a higher point than at any time since October, 1921. The present index number is 1,450 as compared with the 1st of January, 1914.

212. What is the October figure, counting 1913 as 100?—132.5.

213. I have the chart prepared here by your office showing the wholesale prices of the Union of South Africa classified as all commodities, South African produce and imported goods; there is also a graph representing the United Kingdom wholesale prices. This chart seems to show that on the upward movement the index number for prices of imported goods in South Africa lagged behind English prices, rising slightly later than English prices rose, and that on the downward movement South African prices lagged considerably behind English prices?—Yes. There was a lag of between three to six months.

214. So that when prices go up in England, prices of imported goods go up shortly afterwards here?—Yes.

215. And when prices come down in England they come down here three months or so later on the average?—Yes, under normal conditions, that is what we expect.

216. And this change is brought about by competition here? On the downward movement the ordinary merchant would like to continue to get the higher prices here as long as he could?—Yes.

217. And when prices come down in England he would keep prices up here as long as he could?—As long as he had stocks to dispose of which were purchased at the higher prices.

218. So that this looks as if competition is fairly effective in bringing down the price of imported goods in response to price declines in England, but there is a delay or lag in that price decline here, during which competitive forces are working themselves out—a lag on the average of about three months?—Yes.

219. Would you say then that at the end of three months there would be a fairly complete adjustment to price movements in England so far as imported goods are concerned?—Yes. I think the evidence points in that direction.

220. The importer here, when exchange on London gets low, gains by the lower price paid for sterling. Is that so?—Yes.

221. The evidence given by your chart would seem to show that as the result of competition, and with an average lag of about three months, the gain realized by the importer is passed on to the consumer, or, at least, is passed on to the retailer?—Yes, to the retailer.

222. Have you any evidence as to the rapidity at which this gain is passed on to the consumer through the movement of retail prices? Have you a chart showing the movement of wholesale
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prices of imported goods compared with the movement of retail prices so that the two movements can be readily compared? I press this question because there are a number of people who say that the benefits which the importer obtains from low exchange rates are not passed on to the consumer, and there are others who say: "Yes, competition forces the merchants here to pass it on to the consumer fairly quickly." The evidence here is that these benefits are passed on to the retailer fairly quickly?—Yes. A graph is being prepared.

223. Does the retailer pass on to the consumer fairly quickly the benefit he obtains from the wholesaler and which the wholesaler has obtained from the low exchange?—We are preparing a graph showing the relative course of wholesale prices and retail prices.

224. But your retail prices are not limited to the prices of imported goods?—No. No distinction can be made between the retail prices of South African and imported commodities. We have never attempted to prepare a separate index for retail prices of imported goods.

225. To what extent are the retail prices that you include in your index numbers made up of imported goods, roughly speaking?—As far as foodstuffs are concerned, the bulk of the commodities are South African produce. Coal, of course, is South African. As regards the items described as "sundries," the great majority are imported.

226. This chart to which I have just referred shows that the price of imported goods rose to a maximum of 3,245 in July, 1920, counting the 1st of January, 1914, as the base, and that they have since declined to the present figure for October, 1924. It shows that South African produce on the other hand rose to a maximum of only 2,270 in July, 1920, and that they now stand at 1,353 for October, 1924. In other words, your imported goods rose by July, 1920, to a much higher level relatively to January, 1914, than your South African produce rose, and your South African products have since fallen to a much lower level than your imported goods?—Yes.

227. That seems to mean that relative to the pre-war periods you are paying relatively much more in exports for what you are receiving in imports?—Yes.

228. The price level in England to-day is higher than the price level in the United States relative to 1913 by considerably more than the amount represented by the discount on sterling in terms of gold. The Board of Trade index prices of England for September, 1924, was 167. The United States index number (Bureau of Labour statistics) for the same date was 149. The discount on sterling in terms of gold was about 5 per cent. On that basis the British index number should have been about 157 ½ as compared with 1913, which would just represent the discount on sterling. The British price level is, therefore, apparently higher than the gold premium would justify?—Yes.

229. And these are the prices which you are paying for your imported goods?—Yes.

230. What information can you give us as to the movement of real wages in the Union, meaning wages as measured in purchasing power, or wages as compared with the movement of the cost of living?—The Census Office collects annually wage rates paid in certain classes of occupations in the Union. The cost of living index is applied to the averages of these wage rates in order to arrive at the effective or real wages. I have a statement here which shows the average wage paid to European workers in nine towns in the Union from 1910 to September, 1923, showing (a) nominal wages and (b) effective or real wages.
232. What do these figures show as to the movement of real wages since 1913?—Unfortunately, this table only shows the actual average wages, but a table will be prepared giving index numbers of real wages as compared with nominal wages on the 1913 basis.

233. Can you state, broadly speaking, whether real wages have gone up since 1914?—They have risen. The general tendency has been upwards, with slight fluctuations, until 1921. The annual movements are as follows:—Real wages went down slightly in 1915, rose again in 1916, went down slightly in 1917, rose again in 1918, went down in 1919, rose in 1920, rose to a maximum in 1921, came down in 1922, and there was a slight tendency to rise at September, 1923, the latest date for which we have any information. They reached their maximum in December, 1921. Nominal wages reached the maximum in 1920, came down in 1921, again in 1922, and rose slightly in 1923.

234. During the period of inconvertibility, namely, during the time when the South African pound has been tied more or less to the sterling paper pound, there has been no tendency to an increase in real wages, but the tendency has been rather down?—Yes, up to the end of 1923. I am afraid we shall not be able to submit figures for September, 1924. There are certain wage rates available at more frequent intervals, but the basis is not wide enough for a general calculation. The annual returns of wages are obtained directly from employers of labour.

235. Do you know what the attitude of labour is? Does labour feel that wages have kept pace with the cost of living or has labour suffered through the failure of wages to adjust adequately to the changes in the cost of living?—I can only give my own personal opinion on the matter. I do not think that the employees are of opinion that their wages have risen sufficiently to enable them to meet the higher cost of living, more especially during the last two years. I am speaking of white labour.

236. Have you any opinion with regard to coloured labour?—No. I have not sufficient information regarding coloured labour.

237. Have you any information available concerning the balance of visible and invisible trade items during recent years?—Yes. I am handing in a statement prepared in the Census Office which shows the balance of visible and invisible trade as far as the available information will allow us to complete such a statement. A detailed memorandum is also attached showing how the various items in the statement have been arrived at.

238. These are the main points about which I wished to question you. You know the character of the problem before the Commission. The main question is: Should South Africa return to the gold standard in accordance with existing law on 1st July next independently of Great Britain, namely, to return whether England returns or not. If you have any points you care to make on that subject or any material which you care to submit which you have not already submitted, we shall be glad to have it?—As regards material, we have submitted practically everything which seems to have any bearing on the subject.

239. Have you any judgment to express on this subject on the basis of the material which you have and the studies you have been making?—No. I have no judgment to express. To return to the question of material, we shall go into the matter again to see if we can submit anything further. I think we have supplied you with copies of all the publications that we issue, and in those cases where the information is not up to date we will bring it up to date as far as possible. We have undertaken to prepare certain graphs covering the index of volume and index of value of exports and imports from 1914, and the course of exchange rates. These are now in hand, and I hope to submit them at an early date.

240. We are very anxious to have the latest index numbers for wholesale prices, retail prices, and wages.—These will be submitted.

241. We appreciate very much your co-operation in this matter. Your evidence will be very helpful to us.
Mr. Johannes Gerhardus van der Horst.

SATURDAY, 13TH DECEMBER, 1924.

Mr. Johannes Gerhardus van der Horst (examined).

242. (Professor Kemmerer.) Will you state your present position and experience in the field of finance in South Africa?—My personal occupation is what you would call a director of companies; that is to say, I am a director of a number of companies. My chief personal interests, in so far as I am a capitalist, are in farming. I have a farm and actively pursue farming operations. I live on it. Of the companies that I am a director of, the chief are department stores in Capetown, of which I am chairman and director. It carries on the general business of a department store. I am director and acting chairman of a fishing and whaling company. The business of that company is trawling and whaling; we export fish to Australia, and in conjunction we have a company that goes in for sealing and we export a good deal of seal oil. We have a fleet that goes sealing in the Kerguelen Islands. Then I am a director of the South African Mutual Life Assurance Society, which is the biggest of our local assurance societies. Then it may interest Dr. Vissering if I mention that I take an interest in a Dutch book-shop. Until three years ago, I was chairman and managing director of the Imperial Cold Storage and Supply Company.

243. You understand that the question directly before this Commission is the question of the advisability of the Union's returning to the effective gold standard on 1st July independently of Great Britain. Will you give us in your own way your judgment on this question and the reasoning by which you arrive at your conclusion?—When I had the privilege of meeting you on the train and it was first suggested that I should give evidence before the Commission, I really doubted whether there was anything that I could say which would be of real use to you. On consideration, I think perhaps there is one aspect in which I might be able to assist the Commission or at any rate point out the difficulties which I myself have found in connexion with the question, and in that way suggest how the Commission might help the country very considerably. If you will allow me to say so, I think that what our country really requires is a little psycho-analytical treatment. It suffers from an inferiority complex. We know everything about high politics, military science, and so on, and we believe that we can teach the world all about these, but when we come to economics, and more especially money, we feel helpless. I think I might cite to you as an instance a lecture which Mr. Greig delivered the other night to the new Economic Society. I took a little cutting from the report of his lecture to show that. This is what he says:

"If South Africa waits patiently until London thinks it suitable to go back to the gold standard, then it will be in the general interest of the country. Nothing will be gained by anticipating London. If we go on the British Treasury bill system until the London market sees fit to go on the gold standard, then we shall gain a new source of revenue, we shall bring our exchange to parity, we shall save our primary industries from the export tax, and we shall give the country an opportunity of bringing in further capital without excessive charges."

The whole basis of this argument is that we cannot stand alone. Of all the countries of the world, big and small, we are the only one that cannot have a monetary system of our own, and that is a very great difficulty which we encounter in finding a practical solution of the problem. There is the psychological factor. You cannot eliminate it, and, especially in times like these, it is probably more important than economists generally admit. I just would not put it to you as it appears to me. Historically, we were a very small country, exporting a little wool, at one time a little wine, later on diamonds. The world was, of course, prepared to sell us the goods that we required, but were only prepared to accept
these articles in payment. It was not until we started producing gold that we could increase our purchases and obtain the capital which made possible the proportionately large development which has taken place in this country in the last 30 to 40 years. If we take the figures of our exports from the time of Union, during the last fourteen years, it seems to me that that is borne out. We talk about reverting to the gold standard; if we look at our actual exports from 1910, the percentage of gold in our exports of our South African produce has never been less than 50 per cent.;—that is to say, visible exports; this includes specie; but the specie is a negligible quantity. Is there any other country that can say it is actually paying in gold for the goods that it requires to the extent that we do? Now, if you take the other items of our exports, there are besides diamonds, wool, coal, and maize. These are all things that the world is prepared to take; but it is not prepared to take any of the things that we can produce at the present time to the extent that it is prepared to take gold. Therefore, when we talk about the gold basis, it seems to me that if we could not pay in gold this country would come to a very sudden stop. Suppose the world was not prepared to take gold any more. We would no doubt gradually develop our other industries, but it seems clear to me that we could not immediately produce anything to the extent that would take the place of gold. It seems to me that we would stop taking at least half of our imports or very nearly half of our imports. The world takes our wool, diamonds, coal, and maize to a certain extent, and for the rest, it demands gold in payment, payment of our interest on borrowed money, insurance, freight on the different goods imported here, and so forth. That is the position as it appears to me. If we should no longer be able to pay in gold, we should have to stop importing the goods for which payment in gold is claimed.

244. You assume that you could continue to pay interest on what you already owe in order to remain solvent?—Yes. There is, however, this peculiarity, if you will allow me to revert to this question. It is important to notice that our gold and diamonds are owned to the extent of 80 per cent., perhaps more, but certainly not less, by shareholders living overseas, and generally the South African seems to have the idea that the gold and diamonds do not belong to him, that they belong to the shareholders overseas. If the Commission could make it plain to the people what the real position is they would confer upon this country a benefit which would have wide reactions. As regards our banking—it has in the main been directed from overseas, and in so far as it has been locally directed it has been unsuccessful. Up to quite recently one could say that all our banks, which have now been reduced by amalgamation to three, were directed from overseas. The non-success of this local direction is remarkable. That is a peculiar feature, because in connexion with trust companies in South Africa we have been remarkably successful. Nearly all over the country we find trust companies dealing with trust money and acting as executors. These companies have generally been quite successful: they are well established; they command a large capital and large funds, and they seem to act as deposit bankers to a considerable extent.

245. Are they rigidly controlled by law?—No; that is the extraordinary thing. There is no special legislation regarding them, but they have been successful, whereas local banks have been unsuccessful. Now, that, to my mind, has added another element of difficulty to the situation. The European banker naturally has always had to buy gold because his country does not produce it. Our bankers have been trained in Europe, and seem unable to realize that they live in a country which is producing gold and that it is in the interest of this country to see that it is consumed as much and as fast as possible. Generally speaking, in coming into contact with our bankers, it has always struck me that the question has never been looked at from the South African point of view. They don't seem to realize that for the last thirty years, since this development, South Africa has been paying for
all its requirements to this extent in gold. That makes our position more difficult when we deal with the question. Perhaps I may refer to another thing. You know, of course, that we are divided into two nationalities, and that one of them, my own—Dutch—is very largely foreign to commerce. They have no interest in it practically speaking, and are not shopkeepers except to a small extent. You will find them in the professions, but they are chiefly farmers, and to a very small extent merchants and shopkeepers. That adds another element to the difficulty. One would expect them to be the people who would rather insist upon South Africa finding its feet in respect of monetary policy, but the fact that they are not engaged in commerce brings it about that they, too, suffer from this inferiority feeling that I have mentioned.

246. How do you explain the fact that the Dutch people take such a small part in the commerce of the country. Generally speaking, the Dutch have been rather noted as being great merchants?—It is rather extraordinary, but I think the people of the Netherlands were great merchants because they were great seamen. They went abroad in ships, and naturally commerce followed in their train. But here we were cut off from the sea. We had lost the connexion with the Netherlands a century ago, and Holland itself at that time had rather taken a back seat in things. Coupled with that, there was the language difficulty; their own language ceased to be the language of commerce. Then they moved inland largely and became farmers, and were not in the way of developing commerce to any extent; they became more and more locked up. It seems to me that latterly the position has been that whereby the country had adopted a system under which, one may say, the community in general is paying tribute to the exporters.

247. What do you mean by paying tribute?—The exporters of gold realize under our present system what is called a premium on their exports, and we have to accept here money which is really less than the equivalent of our service and our goods. We pay more for our imports than we should, and the general community bears that burden while certain sections get the advantage.

248. At the present time you find the exporters complaining because of the high premium on exchange, and the importers are fairly well pleased with it. The exporter can only receive £100 South African for 103½ sterling. He does not like it. Whereas if the importer can buy 103½ sterling for £100 South African, he is pleased?—They are pleased because they go upon the assumption that the two things are the same; that is to say, that the English £1 and the South African £1 are the same thing. The legislation of 1920 certainly introduced a difference between the two.

249. Doesn't the sovereign have the same amount of gold in both countries?—Yes, if the sovereigns were in free circulation. That would settle it, but when you lock up the sovereign and substitute paper for it, then you no longer deal with a sovereign but with a paper substitute.

250. How would you find out the difference in value between the £1 sterling and the £1 South African?—To some extent you can tell it, of course, by comparing it with the free gold currency, but I doubt whether even that, in the peculiar circumstances of South Africa, gives you the real difference. There is a difficulty which I have with regard to our index number. If you look at our index number it is very difficult to account for its being so low except on the supposition, which I myself have a shrewd suspicion is correct, that our £1 has really been for some time and is to-day above gold parity.

251. Your wholesale price index number, using 1913 prices as the base, is lower than the index number of the United States—very much lower. It is even lower than the index number of any other gold standard country that I know of, so that, based on this evidence, it would seem that South Africa had deflated even below the gold standard basis?—Yes. That is the point I wanted to make. I should like the Commission to look into the matter and see what they make of it. I have not been able to account for it, and it is difficult to account for it except in the way I have
suggested. I should put it that since 1921—I cannot say the exact date from memory—for some years at any rate our own £1 has really been above parity. The importers believe that the South African £1 has only the value of the British £1, and, therefore, if they get a premium on it, they are pleased with it; sometimes they are quite surprised at it. I had a letter from my own firm lately expressing surprise at the premium they received for some remittances they made. I say that we are not getting the full advantage in the purchasing power of our money and that the exporter is getting that advantage. The exporter, relatively to the rest of the community, is in a stronger position, because there is a demand for his goods, and he is therefore in a better position to maintain his position in the market than the rest of the community. If he gets that advantage now he gets it at the expense of people who are, relatively to himself, in a weaker position. A burden is being piled up against the weaker section of the community, and it is impossible to say exactly upon whom it falls most. One sees little instances of it in one's daily practice—people who are insured being forced in increasing numbers to borrow upon their insurance policies. And it is reflected in other ways—amongst the natives for instance, who are, of course, a very weak section of the community.

252. You represent one of the largest insurance companies in South Africa?—Yes.

253. And your insurance policies are payable in the South African pound?—Yes.

254. In the event of the South African £1 depreciating very decidedly, then the value of these policies goes down correspondingly?—Yes.

255. In case then that the Union of South Africa should tie up to sterling and that sterling should again depreciate in terms of gold and in terms of goods as it did during 1923, the value of every policy which you have in this country would correspondingly depreciate?—Without a doubt.

256. The value of the premiums would likewise depreciate, but the present value of most of the policies is the result of premiums paid during a long period of time?—Yes. Policy-holders who had claims on their policies after the depreciation of our money, which started in 1919, suffered losses.

257. In case then South Africa should go back to the gold basis and in case the £1 sterling should depreciate in England and South Africa, it would result in serious loss to all people who held insurances in this country and whose policies became payable during the period of depreciation?—Yes, I think so, like all other money savings, it would depreciate to that extent: people would suffer the loss, and it could not be made good to them. I should like to explain that I am not giving evidence officially on behalf of the society, and I should not like to commit them to my views.

258. Do you permit your policy-holders to pay at par with sterling in London?—We have had that difficulty arising not only in regard to London but also in regard to all parts where the people deal in sterling. Generally speaking, because the amounts concerned were in most cases very small, we have accommodated our clients. If we were to expand our business we should have to insist upon payment in South African currency.

259. Your people who are living in London have to pay in London?—Yes, at present we allow them to pay in London. We accept in sterling. Generally speaking, there is confusion in South Africa created by the business houses looking upon the two currencies as one and adding the two together as if they were the same thing. They look upon the exchange as a banking imposition. The society has not taken any steps yet with regard to this, and, therefore, I do not wish to anticipate its decision. The sum involved was comparatively small, and there has always been the idea that sterling would go back to parity. Our investments are wholly in South Africa. I do not think that we hold
anything outside except a very small amount of Natal stock, which was issued in connexion with the Natal Indian immigration scheme, but it is a very small amount.

260. In your case your liabilities are in South Africa. If you meet these liabilities in sterling this is not a matter of legal requirement or of legal privilege. It is merely done at the request of policy-holders in England and in favour to them. With exchange as it is now, such payments would be of advantage to the company, would they not?—Of course if we paid out a client in London the benefit of the exchange would go to the society, but it is not a great matter.

261. If you paid out a claim in London the policy holder might insist on being paid in South African pounds or their sterling equivalent at the market rate of exchange?—He would be entitled to it. If the exchange worked against him he is quite likely to ask for sterling. The position is not so clear to me as it ought to be. but, legally speaking, our payments are due in Capetown, where our head office is and where our policies are issued.

262. Do you find as a matter of experience that you can realize substantially a larger rate of interest on South African investments than on sterling investments?—Yes.

263. Can you give us any idea as to the difference?—That is rather difficult from memory. I should like to give you the exact figures. In the United Kingdom, insurance companies get a higher rate of interest now than under pre-war conditions. Many of the British companies are getting very high returns on their investments. Before the war, however, our rate was higher than the British rate. This system of treating two different things as one and the same thing is not always the right way you can possibly have a true statement unless you translate foreign currencies into the currencies of your own country at a given time and at a given exchange. In principle it seems to me it is as wrong to add English pounds sterling to South African pounds as it would be to add dollars or gulden to the South African pound. And if there were to be a very marked difference between the two currencies the balance-sheet of any company, any society, or any bank might show quite a wrong aspect. Take the Reserve Bank for instance, where British Treasury bills are held, I made some inquiries, not from official sources but from people who I thought would be likely to know, and I was informed that the item British Treasury bills showed the nominal amount of British Treasury bills held by the Reserve Bank. If that is so, and they are shown in their balance-sheet, as an asset without making allowance for the rate of exchange, then surely that balance-sheet, to that extent, is not true. The exchange ought to be deducted or at any rate some item ought to be shown on the other side as a liability.

264. You would propose that in the balance-sheet of the Reserve Bank all London investments should be treated as foreign investments?—I think that all foreign currencies, and by foreign I mean all currencies other than that of the Union of South Africa, should appear in the balance-sheet of any company or bank. I consider the English currency is now to be treated as foreign currency. Under the company laws we consider all companies outside the Union as foreign companies. A British company is regarded as a foreign company in the Union just as much as a Dutch company or an American company. In connexion with that there is a point which I wish to submit to the Commission and that is, whether it would not be advisable for the Union to establish or to select some other monetary unit. I do not mean whether it is merely a matter of sentiment on my part, but I think it would be to the advantage of this country, for instance, if we were to revert to the old rix dollar which we used to have. It is a smaller unit, and it might have some effect upon their mentality and encourage economy. In connexion with the money-unit I have felt that it in going to Europe, more particularly before the war, where you have the gulden for instance, the people in Holland look at that very much as we look at the £1.
With a smaller unit we should live more economically. It does have, I believe, to some extent a psychological influence. The question is naturally how people look at it. I do not think that the ordinary English householder thinks in terms of pounds, but the business people certainly do.

265. In South Africa do people think in terms of pounds or in terms of shillings?—I should say they think in terms of pounds.

266. It is a difficult thing to change the monetary system. It causes temporarily a great deal of disturbance and confusion, but sometimes the effect is accomplished by making more monetary divisions of the existing unit. Take Peru—the £1 Peruvian has been divided into units of ten sols and 100 cents. Most people in Peru think in terms of sols. The large transactions are in pounds, but the great bulk of the transactions are expressed in sols. If South Africa has a system of that kind and different divisions made possible, the confusion mentioned resulting from the fact that people think that the £1 South African is the same thing as the £1 sterling because it has the same name, might be minimized?—I recognize that it would be a very difficult thing to change the system because of the psychological factor in the South African people, which I mentioned before, and our own Dutch people, who are very conservative, may hesitate to go to a new thing. The monetary system, it seems to me, is the expression of the economic personality of a people. If you have not got a monetary system of your own, then you cannot properly express your economic personality. The view occurred to me first at a time when it was said to be impossible for us to go back to gold; but rather than pursue the course we were taking, I urged that we should decide what the value of our £1 was, and that we should have a gold coin to express that value. I thought that it might be in the neighbourhood of 16s. 8d. to 18s. 4d., and be divided into ten rix dollars, but in view of the rise since then in sterling and the position of the South African £1, it seems to me that we might have a rix dollar of the value of 2s. and have a further division. In actual practice it might overcome most of the trouble if the £1 were retained as a unit and the florin as a division of that.

267. There is no other country in the world that I know of with a unit so high as the £1, except parts of the British Empire, Egypt, and Peru?—I should like the florin to be established as the unit. I suppose that in actual practice, in the payment of wages and small purchases, the florin would then be looked upon as the unit, but I should like to have it as the legal unit as well.

268. Something higher than a shilling?—Yes, about one-tenth of a £1. It would give some sentimental satisfaction at any rate amongst the Dutch community if it were to be called a rix dollar. I think it would be a decided advantage if we could have it.

269. Are there many people here who would think it an advantage?—The South African people are more accustomed to the English system. The older generation still speak of 1s. 6d. as the rix dollar, but that is gradually dying out. Our present generation is mostly accustomed to pounds, shillings, and pence, but I think they think mostly in terms of pounds. That really covers the points that I thought might be useful if brought to the attention of the Commission, and if you could enable the nation to realize how this matters to the people you will be rendering an inestimable boon to the community.

270. (Dr. Vissering.) You were speaking of the price indexes in respect of the year 1913 as compared with the figures of the present time. Is it not the case that the prices in South Africa were rather high as compared with prices in other countries and that the comparison is therefore not genuine?—One would have to make some allowance for that, because prices in South Africa at different points were so markedly different.

271. (Professor Kemmerer.) This index number is based upon prices in a considerable number of cities?—Yes.
Mr. Johannes Gerhardus van der Horst.

272. And the presumption would be, would it not, that the prices of imported goods would normally be higher in South Africa than in Great Britain?—That is bound to be accepted except in exceptional circumstances. But in 1913 the index figures for some of our towns were much higher than for others, but of course that is allowed for to a certain extent by the average. I think it was taken for nine towns. I think also that another influence has been that a good many of the articles that used to be imported by us in 1913 are now produced in South Africa at a cheaper cost.

273. So also the prices in 1913 were higher?—Yes, they were higher. I think in some parts more than in others. I think you must make some allowance for it, but notwithstanding that I have the suspicion that our £1 has been above gold parity for the last two years and perhaps a little longer.

274. The index number for wholesale prices in South Africa in 1910 was 1000, and in 1913, 1140. I believe you would find in studying the index number of other countries that there was nothing to show that 1913 was a very exceptional year for that general period of time?—I think it was the case that the general level of prices was higher here than in the United Kingdom. We had a period of high prices during the Boer war and for a couple of years after. Then came a depression and a reduction in prices and a rise again from probably 1908 upwards to 1913 and to the time of the war. Although there was a gradual increase, I do not think there was any marked rise.

275. Of course, your index number tells you only the story of the relative movements of prices within the country; it does not tell you whether the prices were higher or lower than the prices in any other country?—No.

276. South Africa is a new country, and in a new country efficiency can be increased in many directions.—Undoubtedly. That is an advantage which I suppose South Africa derived from the war when there came a demand for articles that the world had never asked from us before. Take meat. Up to 1914 we were importing meat from Australia to supply the Imperial troops. We have become more self-supporting.

277. Did not the rising cost of living during the war and immediately afterwards, accompanied by a fixed price of gold in the United States, the country which has been receiving ultimately the great bulk of your gold, stimulate the effort for greater economy and greater efficiency in the production of gold itself?—I think so. I think it did.

278. Your mining costs have been reduced?—Yes. Up till 1919, of course, gold was being taken at its standard value, and the increased demand for South African articles, the difficulty of getting supplies, and the higher prices you had to pay for supplies imported, led to a rise in the costs for the mining industry. I think that was in 1918, for the first time, the question of the low-grade mines came into view, and a select committee was appointed to inquire into the position. In 1919 a Low-Grade Mines Commission was appointed, a commission on which I sat, and there it appeared to me that the first question for consideration was: "At what price are you selling your product?" because if your costs are rising and your product is being sold at a standard value the industry is bound to become unpayable, at least the low-grade mines. The position was critical until the Government allowed the mines to take what was called the premium. The mining companies gave a big increase in wages of all kinds at the beginning of 1920. That was the result of the premium on gold from a certain period in 1919. Of course, the mining interests struggled as hard as they could against the increase, but they got the high premium from September, 1919, and had to concede the rise in wages. I urged upon the Government to deal with our monetary system at that time.

279. Some of the export interests have been claiming that the importer is gaining by the high discount on South African exchange, and that he is not passing that advantage on to the
public. Your statement is, that when the South African exchange went in the other direction, namely, to a premium, and when you take into account the premium on gold, the exporter likewise did not pass the benefits then received on to the labourer, so that the rule works both ways?—With regard to importers I might mention that the heavy imports in 1920 were due to orders having been placed in Europe which could not be executed during the war period, but were not cancelled, and when the markets in Europe collapsed the orders were executed and huge stocks were imported here. These stocks have been liquidated now, but I do not think that importers have been making normal profits of late. The importing business, generally speaking, is better organized than any other business in this country. It is highly competitive. I think their margin of profit has been lower than the normal profit. It is remarkable how close our profit was to that in the United States.

290. Then there is vigorous competition amongst wholesalers?—Yes.

281. Among retailers?—Yes. It is the same thing. Perhaps in a small community you might get a sort of special price. A charge might be made sufficient to cover the services rendered in a small business, but the bulk of the people live in places where there is competition amongst the merchants, and competition is very keen now.

282. Do you think that any benefit obtained in this way by the wholesaler and by him passed on to the retailer would fairly soon be passed on to the consumer?—I feel sure of it. Prices may even be higher because competition is too keen. For instance, bad debts are so large that you have to allow for that, and in the end the consumer has to pay. Credit has to be given in South Africa; the farming community requires it. The Governor of the Reserve Bank has been in the habit of lecturing us on credit, but of course no one gives credit when he can get cash. If merchants did not, they could not do business. The risks of credit are larger than they ought to be, because competition is too keen.

283. I have here a chart for the period 1913-1924 covering the wholesale prices of the Union of South Africa, classified as "All Commodities, South African Products and Imported Goods," compared with the United Kingdom prices, using the prices of the year 1913 as 100. The curve with the dotted line represents prices in the United Kingdom, and the solid line represents the index number of goods imported into South Africa. The chart seems to show that the index number covering prices of goods imported into South Africa rises shortly after the index number of prices in Great Britain rises and falls shortly after the index number in Great Britain falls, and that these curves rise and fall roughly to the same extent. It seems also to show that there is, on the decline in price, a lag of a short period. The Director of Census yesterday stated that he estimated the lag was something like three months on the decline; it seems to respond more quickly on the rise. Apparently, South African prices rise very promptly after a rise in England, but when the fall takes place they do not decline quite so rapidly. That would seem to bear out your statement that competition forces prices down in this country fairly quickly after a rise in England, which is the market from which this country buys chiefly. But it does not answer the question as to whether this decline in wholesale prices is passed on to the consumer quickly by the retailer; but I take it to be your judgment that the same thing happens as far as the retailer is concerned, namely, that when he receives the benefit from the wholesaler he passes on that benefit fairly quickly under the pressure of competition?—Yes. I think it is very keen among retailers. Circumstances in small localities are peculiar. Take the case of a man starting a butcher's shop in the suburbs of Pretoria. He has a limited number of possible customers to supply in his surroundings, and he would probably make nothing more than his living expenses and find it difficult to do that. He would add on to the costs of the goods he has to sell just sufficient to cover his expenses and living; it may be a high percentage owing to the small volume
of his trade, but it seems to me that that is inevitable in the circumstances. The percentage of his profit depends on the volume of his trade.

284. We have not received your answer to the main question we have before us. Do you think that, regardless of what action Great Britain may take with reference to the return to a gold basis, South Africa should carry out its present legislation and return to a gold basis on 1st July next?—I would not say "regardless." Supposing we were to have a definite assurance from the British Government that they intended within twelve months to return to a gold basis, it would seem to me then that, because of this feeling amongst our own people, we should wait another six months. I say that, of course, if a definite announce-

ment is made that they are going back to gold parity.

285. At the rate of exchange yesterday and the day before, roughly speaking, sterling was within about 3½ to ¾ per cent. of gold parity. The South African £1 is about 3½ per cent. more valuable than sterling in terms of gold. The South African £1 is practically at a par with gold, and sterling is selling for ¾ per cent. discount in terms of gold. Do I understand you to say that regardless of what happens to sterling during the year, even if an announcement should be made that they intended to go back to a gold basis, it would seem to me that it is inevitable in the

286. Why?—The only reason personally that I can give is that if I can get the support of the people more readily by saying that we will maintain the position where it is to-day but we won't actually convert until Great Britain does, in order to get that assistance I would say: "All right, postpone it for six months."

287. Isn't the only reasonable way of maintaining the position you have attained to-day to convert? If you are going to main-

tain the position where you are to-day, how are you going to maintain it except by gold convertibility?—Personally, I have the strong conviction that South Africa should be on the gold standard. The difficulty is to get people to see it, and on that account I would be inclined to make some concession. Where so large a proportion of our exports have been actually in gold—57 per cent. it has been for the first eight months of the year—it seems to me that it ought to be extremely easy to maintain that payment. I think that the Reserve Bank should take the lead in this matter. I do not know what the Reserve Bank does; there is no evidence that it has done anything at all.

288. What I understand to be one of the principal arguments advanced for taking action now is that stability of South African exchange with sterling has an advantage which is supposed to accrue to South Africa. This advantage grows out of the fact that the bulk of the trade of South Africa is with Great Britain. But your exchange has already broken with sterling. You are not on a fixed par with sterling now. Furthermore, you have practically reached gold parity at the present time, so if you stay at gold parity and sterling does not again decline in relation to the dollar, any advantage that might otherwise accrue to South Africa has gone. You have practically reached gold parity. Now you have given up all those so-called advantages, whatever they may be?—I do not think there can be any loss. I think it would be to the interest of South Africa that an announcement should be made that we are going to return to gold at the end of June, 1925. I am prepared to make a concession to prejudice or whatever it is, but the sooner that we can have a definite announcement that we are going to return to gold the better. Personally, I see no difficulty whatever in South Africa maintaining her gold payments.

289. If England continues to advance to a gold standard there is no harm?—No.

290. If the £1 sterling moves downwards in terms of gold, would you say that South Africa should follow sterling down?—No. I think it is against our interests. In fact, in a certain sense it
I should say that to perform agree among effective would add to the existing feeling, because it is there. Bank do in now. There is a very Africa commercial banks to speak much on the price. I do not know sufficiently about the relation between it and the own feet—is the Bank for assistance but has maintained its having an influence on your monetary system. The demands of the United Kingdom for gold to talk about a gold standard at all for other countries if a country which pays its requirements to the extent of not less than 50 per cent. in gold cannot maintain it. If that country cannot do it, then surely no other country in the world can have a gold standard.

291. Is it your feeling that the Reserve Bank should become more active in the exchange market?—I think it ought to do something. It is doing nothing, and it certainly ought to become more effective. My own view is that it could become more effective without any difficulty at all, but in order to overcome any possible difficulty the Bank should be fortified with powers to do it.

292. You do not have to give out gold in this country unless you receive something else in payment for it?—No.

293. In the early days you imported less goods because you had less money to pay for them?—Yes. It has always appeared to me that the difficulty in Europe has never been our difficulty. They are afraid of being drained of their gold. Draining the country of its gold is our chief industry. We look upon it as our business. Our danger has been that the world might not take our gold; might not require it. To-day I do not think that danger exists. That connection because in any case Great Britain requires our gold in order to pay the United States. We know that India requires gold, and the world generally requires it. How is it possible to talk about a gold standard at all for other countries if a country which pays its requirements to the extent of not less than 50 per cent. in gold cannot maintain it. If that country cannot do it, then surely no other country in the world can have a gold standard.

294. What sort of service do you think the Reserve Bank ought to perform?—I should say that to be of any service to South Africa that a certain monetary policy should be fixed and carried out in the interests of South Africa in conjunction with the other banks, and the Reserve Bank should have power to carry out that policy.

295. With regard to exchange, as I understand it now, the other banks get together from time to time and decide what the rate should be. Then they all follow that same rate until they agree among themselves to change it? What should the Reserve Bank do in a situation like this?—Take actually what happens now. There is a very wide margin between the selling and buying price. I do not know in how far the Reserve Bank may be privy to that. But so far as I know the Reserve Bank does not compete
with the other banks. The banks know very well that independent merchants do exchange business amongst themselves. I do not see why it should be necessary for merchants to do that. It is not their business. I should say that the Reserve Bank ought to be in a position to do exchange business. I think that the Reserve Bank should take the lead which the others should follow. As far as the public knows, it does nothing of the kind. I have done little exchange through the banks. Merchants arrange the exchange between themselves and in that way take the benefit of the bank's margin.

296. Is that done on a considerable scale?—Yes, I could not say what the proportion is, but it is done in all the large towns. The banks curtail it in a way by imposing a charge on the transfer of money from town to town. I think myself it is an unfair charge. It would be reasonable if they had to transfer gold and run the risks incidental to that. There is certainly no ground for the charge that is actually being levied.

297. What is the attitude of the banks towards merchants? Suppose the merchant is banking with a particular bank and the bank finds out that this merchant is buying his exchange from another merchant or selling his bills below the bank's rate to other merchants. Would that be likely to induce the banks to be less considerate to such a merchant in regard to meeting his requirements than otherwise?—I have never experienced any difficulty. They have been very friendly to me. I have never had any trouble with the banks. I have heard complaints at times. I think people are deterred from doing it because of their fear of what the banks might do.

298. The chief bank here has not done any rediscounting with the Reserve Bank?—I have been under that impression. The great bulk of the banking business is done by the two banks.

299. If the Reserve Bank is called upon to rediscount the paper of any other bank, and if the Reserve Bank does not go into the open market and deal directly with the public on any considerable scale, how is it going to pay expenses?—I do not think it can justify its existence. If all it does is to help one bank, the Government might do that direct, and it is not necessary to have a governor, deputy-governor, staff, and other paraphernalia of a reserve bank to do that.

300. Do you think there is sufficient justification for the existence of a reserve bank with the capital which this bank has unless it deals directly with the public?—It does not seem so to me. What we required was a banking law, a law to see that the banks complied with the laws of the land; and this reserve bank seems to me to have been unnecessary. I think myself that the banks in existence would have been able to do the business of the country without any other bank.

301. Do you think that the Reserve Bank can sufficiently justify its existence in the eyes of the public during the next few years as to be able to perpetuate itself if it does not go out into the open market and deal to a very substantial extent directly with the public?—It is extremely difficult to say what this Reserve Bank has to do unless it goes into the open market and does business direct if the largest bank is not going to avail itself of the Reserve Bank.

302. There is agitation now for a State bank. One of the reasons advanced in favour of a State bank is to provide a bank which will provide effective competition with the other banks in the interests of the public?—I think that the feeling that the banks have restricted credit to an extent that was unnecessary is at the bottom of it.

303. Do you think that if the Reserve Bank continues its policy of aloofness that will strengthen the agitation for a State bank?—I think that the Reserve Bank will either have to become effective or a State bank is inevitable. I myself took a little part in the discussion. I was a candidate at the last election and when this question came up I thought it was necessary to say that the question of the currency was the primary one, and that
if the currency policy of the Government were settled, then the existing banks would probably be in a position to supply the immediate requirements of the country; and yet I do not think that anything I said was so unpopular as that. There was no more effective item on the programme during the recent election than a State bank. People have the impression that the banks have unduly restricted credit, and I think myself that there is probably ground for it to this extent that, as I have said before, our £1 has been for a couple of years above gold parity.

304. The banks in general are opposed to a State bank?—I think so.

305. If the banks oppose action by the Reserve Bank in the direction of going into the market and competing with them to a considerable extent, in doing so are they not playing right into the hands of the advocates of a State bank?—Yes. I think that there is very considerable pressure indeed for a State bank.

306. Either strengthen the hands of the Reserve Bank in the interests of the general public or let the Reserve Bank die and be replaced by a State bank?—Yes.

307. It has been suggested that a change in the name of the bank might be made. Do you think anything can be said in favour of changing the name?—I think it does suggest "reserve," but I think if it were doing effective business at the present time people could accommodate themselves to the name if they got the other accommodation.

308. When people make remittances in payment of insurance premiums, and when you make payments of amounts due on insurance policies, do you make the policy-holder pay exchange charges?—We operate at all the big centres. In the Cape at Capetown; Orange Free State, Bloemfontein; Natal, Durban; Transvaal, Johannesburg and Pretoria. We have banking accounts there, and the payments are made there. When we have to transfer a balance, we have to pay the exchange.

309. Do these charges fall on you or on the policy-holders?—They fall on the society.

310. If a man wishes to make payment of a premium to you where there is no agency, who pays the exchange charge?—In some cases we have had trouble about that, but the society generally pays.

311. In any case the society indirectly places the burden on the policy-holders?—It is a mutual society. The policy-holders are the members. They pay collectively instead of individually.

312. I think these are all the questions we have to ask. Your testimony has been exceedingly helpful, and we appreciate very much your co-operation. If in the future you have any suggestions that you think would be helpful to us, we would be glad to receive them either orally or in the form of memoranda from you.

MONDAY, 15TH DECEMBER, 1924.

MR. JACOBUS DOMMISSE (examined).

313. (Professor Kemmerer.) What is your present position?—Acting General Manager of the Netherlands Bank of South Africa.

314. What experience have you had in the field of banking or other fields of finance either in this country or elsewhere?—A matter of 27 years here in South Africa; in the banking business all that time.

315. In this particular bank?—Yes, the Netherlands Bank.

316. You understand that the particular problem placed before this Commission is the question whether South Africa should return to the effective gold standard on 1st July next, regardless of what action may be taken by Great Britain?—Yes.

317. We would like to have your judgment on that question and the reasons in support of that judgment?—The reasons I hold in favour are several. First of all, South Africa has during
the last two or three years developed its position very considerably; its trade balance has been consistently favourable. I hold that South Africa is at the present moment in a perfectly sound economic condition. Its banking position has never been sounder than it is to-day. Its trade position has never been sounder, and there will be no danger in the future for South Africa to return to the gold standard independent of Great Britain. With a sound economic policy by the Government of the day; balancing budgets, a sound banking and credit policy, South Africa has nothing to fear from going back to gold. Any dependence upon the fluctuations that may take place in the currency of Great Britain always reflects very badly upon the prices and upon general conditions in South Africa. It will be to the benefit of the producers as well as the importers that we return, because I hold that the first consideration for the sustained prosperity of any country should be stability of prices and stability of wages. If we have stability of wages and stability of prices in South Africa, and I am convinced we can maintain that, the Union will benefit exceedingly by it.

318. You realize probably that those who are favouring the tying-up of South African currency with sterling make a great deal of the argument that South Africa exports the greater part of her exportable products to Great Britain. These products are therefore sold on the sterling basis. She imports chiefly from Great Britain, thereby buys on a sterling basis; and it is argued that stability of exchange in connexion with foreign trade operations is exceedingly important with the country with which you are carrying on your principal business; and that if Great Britain should not return to the gold standard promptly, and South Africa should stabilize with gold, South Africa would find herself with a stable exchange with the United States and a few other gold standard countries with which she has very little business and would find herself with a fluctuating exchange with the country with which she does the major part of her business. And it is claimed that this would bring in all the evils that are known to arise from a fluctuating exchange. We would like your judgment in regard to that argument?—I think the argument that our trade is principally with Great Britain is rather exaggerated. If the argument is put on the basis that to a very large extent Great Britain has been the broker of South Africa, and consequently the country which has handled the bulk of the trade for South Africa and re-exported the South African goods again, then I quite agree. If we take the 1923 trade figures, for instance, the exports to the British Empire were £64 millions; to foreign countries, £12,100,000. The export of bullion in 1923 included in the former figure, however, was £29,300,000. Now, it is well known that practically none of this gold remains in Great Britain.

319. Great Britain is an entrepôt?—It is an entrepôt; an intermediary.

320. And passes it on chiefly?—To other countries.

321. To what other countries chiefly?—Of late years America has taken the bulk; prior to the war, however, it was fairly well distributed over the whole world.

322. Most of it has gone to America recently?—Yes, although latterly a large portion of it has gone to India.

323. (Dr. Vissering.) The English prices are not the final prices?—No. The English prices are not the final prices.

324. (Professor Kemmerer.) England just receives a commission or a payment in one form or other for her services, and the determining price is in the country that receives the product?—Yes, that is my opinion.

325. Is that also true of diamonds?—I should certainly say so; besides, we may include wool, maize, hides, and skins, although latterly there is an increasing tendency for foreign purchasers to send their representatives to South Africa to purchase these articles direct.
326. Do you know how stable exchange has been in the last couple of years between India and America?—No, I have no knowledge of that. I have not studied that problem.

327. I am inclined to think that whilst there have been considerable fluctuations in exchange between India and London, for some considerable time the exchange between India and America has been very close to the gold par of about 33 cents of American money to the rupee?—I think that is so.

328. Your point here, I take it, is that South Africa's two chief exports are gold and diamonds and that for some time the final market for the bulk of the gold and the final market for the bulk of the diamonds has been America, and that America has been a gold standard country, and that it is the final market that really determines the demand which is most effective in determining the price?—Yes. The diamonds are about the same. £7,000,000 worth of diamonds were exported in 1923, the major part of which, as we all know, is not retained in Great Britain. It is true that the principal market for diamonds is still Great Britain, but at the same time it is more an entrepôt; and they are re-exported from Great Britain.

329. If Great Britain exports these largely to America, she exports them to a country with which she has an unstable exchange?—Yes.

330. So that by stabilizing with sterling South Africa does not avoid bringing an unstable exchange into the sale of her principal products. She simply passes it one step further on?—Yes. On the other hand I am convinced, if the exchange in South Africa is stabilized, the result will be that trade will follow to a very large extent the exchanges of the countries which are stabilized on the gold parity. This is borne out by the fact that whenever sterling appreciates in terms of the dollar, South African trade with America at once improves, while a depreciation of sterling acts just in the reverse.

331. You mean to say that if the Union should stabilize on a gold basis that would tend to divert her trade from Great Britain directly to America and to other gold standard countries?—Yes.

332. And to eliminate London as an entrepôt?—Yes, to a large extent.

333. Would that be an advantage or a disadvantage, in your judgment, to the Union?—I consider it a great advantage to the Union.

334. Why?—She would come into direct communication with the actual consumer—the actual purchaser.

335. (Dr. Vissering.) Would it be possible to have a special market for diamonds and gold elsewhere than in London?—Yes; surely there is a market for gold in all parts of the world.

336. (Professor Kemmerer.) You never have any difficulty in selling all your gold?—As long as gold continues to play the important part it does, I don't think there can be a difficulty.

337. (Dr. Vissering.) You can sell gold directly to British India?—Just lately we have shipped direct to British India.

338. (Professor Kemmerer.) You can sell it directly to America also?—I see no reason why that could not be done, although I have not heard of it.

339. The mints of the United States are open to receive gold in unlimited quantities at a fixed price. There is nothing in the nature of things to prevent you from selling any quantity of gold there you desire at this fixed price?—No, there is not. I don't see why the cost of handling, freight, and insurance should be incurred over a matter of another 2,000 or 3,000 miles farther if gold that is ultimately destined for America can be shipped direct from Capetown.

340. I take it that your point is that direct shipments of these articles that are ultimately marketed, we will say, largely in America would mean a reduction of expenses of marketing and transportation?—Yes. That is my point.
Mr. Jacobus Dommisse.

341. And that any reduction of those expenses would be likely to accrue to a considerable extent at least to the Union of South Africa?—Yes, to a very large extent.

342. And therefore it would be a movement in the direction of economy?—Yes.

343. (Dr Vissering,) If I am not mistaken, gold is already shipped directly from Durban to Bombay, is it not?—Yes, and the practice formerly used to be that the gold went to London.

344. Also all gold sold for India?—Yes, all gold used to go to London. It was shipped from Capetown to London. All the insurance, freight, and handling used to be incurred; and on whatever gold India required and had perforce to draw from London, the same expense had to be incurred again over that part of the journey. At the present moment I understand gold is sold in London to India, and instructions are given to the refinery here, or the Chamber of Mines, to ship that gold direct to Bombay or Calcutta from Durban. It is a great economy to the mines, which naturally decreases the cost of production and realization.

345. (Professor Kemmerer,) If a mine here in South Africa wishes to sell gold to India directly or through a bank without the intermediation of London, can it do so?—Yes, but I have been unable to do it.

346. You have been unable to do it?—Yes.

347. Why?—They have referred me to London.

348. They would not sell the gold?—They would not sell to me here. I can quite understand the reason.

349. What is the reason?—The reason is this: There are fluctuations in the price of gold, and cables are sent by purchasers in India—I think they have had that experience—to London and to South Africa asking the price of gold. Now, it is well known that the market price of gold in England fluctuates very swiftly, and although the mines were constantly in communication by cable with their London representatives, small differences in quotation by London and the mines here occurred. Naturally, when the cables went back from London and from here to the applicant, and there was a slight difference, the party took the lowest price. The result is that they eliminated South Africa and simply referred everybody to London. I can quite understand it is a perfectly justifiable move. But there it is. This, however, must change when once South Africa decides to go back to gold; then the bulk of the gold will have to be sold in South Africa, as it will not pay the mines to sell via London.

350. Formerly it used to be shipped all the way to London and then reshipped to India? That would seem to be a very wasteful method. Have you any idea how much more it costs to ship gold, including interest and all other expenses, to London and then to reship it to Bombay as compared with shipping it directly from South Africa to Bombay?—It is very difficult to say. I could not say offhand, but it is considerable.

351. Do you know for how long that practice was continued?—It is only latterly, I understand, that there has been a change, within the last six or eight months.

352. What was the motive for it? It seems absurd on the face of it that you should ship gold all the way to London and then back to India instead of shipping it directly from here to India?—Yes, it is absurd. I think the brokerage, of course, is a considerable matter on the other side, and it is, I think, due to that.

353. Do you think it was to give the London people their brokerage profits?—I think so. I can see no other reason.

354. Do you understand that is the reason why gold is shipped now directly to London when it is intended for New York, to give the brokers their profits?—I don’t see any reason why instructions should not be given to ship direct to America from South Africa.

355. Is it a question of communications? I think they are quite sufficient. There are plenty of first-class vessels sailing direct to America.
356. If the shipment were made that way it would tend to encourage direct transportation: it would provide freight for the ships?—Yes, it would encourage direct trade. We have, I think, once a month excellent vessels.

357. (Dr. Vissering.) Going direct to New York?—Going direct to New York.

358. Did the small differences in the price of gold originate from the difference in the rate of exchange between the South African pound and the English pound?—No, sterling and dollar rate; gold is sold on the basis of the sterling-dollar rate. A cable is probably sent at nine o'clock in the morning to South Africa, giving the price of gold. Let us say, at 90s. Presumably half an hour afterwards transactions have taken place in the London market by which the price of gold has dropped a few pence. Well, if the cable came from India at a time that the drop of one or two pence in gold had happened, it would be cabled to India from London at that reduced price. At the same time South Africa has the price still at 90s., and the Indian purchaser would accept the price at that lower figure. That I think actually has occurred and I understand, was the reason why they have stopped giving the prices from South Africa.

358A. (Professor Kemmerer.) So far, you have been speaking practically entirely of the export trade. I understand that the Union's imports are very largely from Great Britain, and that they consist chiefly of goods that are manufactured in Great Britain. Would you not have serious difficulties then in connexion with the import trade if you had an unstable exchange with London?—I hardly think that either. First of all I must also say that here again that same factor comes in as detailed under exports. It is well known that large quantities of goods are sent to Great Britain from foreign countries and re-exported to South Africa, and not only to South Africa but to other countries. Formerly, for instance, the bulk of the Dutch cheese used to come via London, and various other articles exactly the same. And I would not be surprised that at the present moment a very large portion of the goods coming from Great Britain to South Africa, and figuring in our imports as imports from Great Britain, are actually goods from other countries. There also, if we are dealing with countries with which we have a stable exchange, I think it will conduct to a diversion, so that the trade of these countries will come direct to us, and it will further lead to a stability of prices for the goods that are imported from them.

359. In countries that normally have unstable exchanges, as, for example, in the cases of exchanges between a silver-standard country and a gold-standard country, or between a paper-money country and a gold-standard country, or between two paper-money countries, it is a very common practice for both exporters and importers to protect themselves against fluctuations in the exchange by forward contracts, and for the banks to protect themselves by hedging, namely, by covering their forward purchases with forward sales. Is that done to any extent here?—I have not heard of any forward exchange sold in South Africa.

360. (Dr. Vissering.) Not by the Reserve Bank?—I think there was one transaction. About a year ago, in the yearly balance-sheet of the Reserve Bank, an amount of £1,500 appeared as a reserve for forward exchange. I have not seen a similar item since. That is the only transaction I have come across.

361. (Professor Kemmerer.) Is there any reason why forward exchange contracts of that kind should not be made here just as they are made in Bombay, Singapore, Manila, or Hong-Kong?—No, no reason. I suppose, however, that the causes must be found in the same mentality as characterizes most of the merchants in Europe and America who are taking very little advantage of the forward exchange contract. They probably do not understand its advantages properly.

362. It is a method which should be available if the merchants demanded it to minimize these evils of instability of exchange?—Yes.
363. (Dr. Vissering.) You spoke of the possibility that South Africa should have a stable exchange with other countries that are nearly on the gold level. How can you come to an exchange level if you are not quoted on the exchanges. There is no quotation of exchanges here, only with sterling?—That is true, but why should we not enter into exchange negotiations with these countries?

364. Who is to do that?—I should say the Reserve Bank.

365. The Reserve Bank?—Yes; if no other bank can be found then the Reserve Bank should be prepared to quote exchange on the countries with whom we trade considerably and that are on a gold level. For instance, in regard to Holland, as long as that country remains on the gold basis, at which it has arrived recently, the Netherlands Bank, I am sure, would be prepared to quote regularly.

366. (Professor Kemmerer.) Do you not quote exchange on Amsterdam?—Yes.

367. You actually buy and sell at quoted rates?—Yes. Although the margin, owing to the wide fluctuations, has been rather large. It is generally about 5 cents either way, which is of course very large. But at the same time we do quote, although the transactions are so small that really they are up to the present a negligible quantity.

368. The Standard Bank and the National Bank both have agencies in New York City?—Yes.

369. Is there any reason why these banks should not quote direct exchange on New York?—Well, I suppose the only reason that they do not do so is that South Africa is an uncertain factor.

370. There are a great many other countries which are 'uncertain factors' that quote exchange on New York?—I suppose they feel rather a bit afraid of entering into it; otherwise I don't understand why they have not done so.

371. You have no branch in New York?—No, no branch in New York; but the Netherlands Bank I think would be perfectly prepared to start quotations through its agents once the Union would return to gold and the exchange with America becomes stabilized.

372. (Dr. Vissering.) A daily quotation?—Yes, if the times were propitious.

373. Not in the manner in which the banks are acting now?—Not now, although I may say we have endeavoured to do so. We have opened a large guilder credit for the export of produce from Durban to Amsterdam, and we are anxious to promote this business as much as possible.

374. Up to now there was not a market for guilders here?—No market for guilders.

375. You were the only bank dealing in guilders?—Yes.

376. (Professor Kemmerer.) In looking over the sterling exchange rates as they have been quoted for a number of years in this country we have been surprised to observe the infrequency of the changes in the rates. Sometimes periods of months and months go by and there is no change in the rate; but during the time that there has been this remarkably stable exchange with sterling there have been decided ups and downs in the sterling-dollar rate. Now I am wondering how it has been possible to maintain such a remarkable stability of sterling rates when the dollar-sterling rate has been moving so much?—We have all been wondering. It has been an arbitrary rate, a rate that has no relation whatever to the international trade position of the Union.

377. It has been an arbitrary rate?—Yes.

378. The banks agree to a rate and then conform to that rate?—Yes.

379. If that is true, although sterling has been going up and sterling has been going down in value during this time, in terms of both gold and commodities, you have maintained a fairly stable rate?—Yes, with Great Britain, to the great detriment of the Union.
380. Is there any reason why, if you should stabilize with the dollar and sterling should continue to go up and down in terms of gold and goods, you should not maintain a fairly stable sterling rate in South Africa?—That could not be done.

381. Let me follow up this question a little further. An exchange rate, as I take it, is practically the price of the right to draw the money of one country in terms of the money of another country; that is, if you say, for example, that the exchange rate here is 964—as it is roughly speaking now—you mean that the price of £1 sterling is 964 South African?—Yes.

382. In other words, an exchange rate is just the price of the unit of money of one country in terms of the unit of money of another country?—Yes.

383. An exchange rate should then fluctuate like any other price. Take for example the price of wheat: that should move up and down in response to variations in the demand for wheat and the supply of wheat. But, the price of wheat should also move up and down in response to variations in the demand for money and the supply of money. If you want to see that, note what would happen in a paper-money country like Austria or Germany when they were inflating their currencies enormously. Change the demand for wheat or the supply of wheat and you change the price of wheat. Now coming back to the exchange rates between South Africa and London: should the rate be stable here and England should inflate a great deal, it would take less and less South African pounds to buy a £1 sterling; so that a change in the value of either one of the currencies is likely to affect the exchange rate. You have been having that situation for some time, and yet your exchange with London has remained fairly stable despite the fact that presumably there have been ups and downs in the value of your money here, i.e. in its purchasing power, and there have been ups and downs in the value of sterling, and these ups and downs of the £1 sterling in England have taken place to a large extent independently of the ups and downs of the South African £1. If you go to a gold basis now, why should you not continue to have fairly stable sterling rates that would not fluctuate with the minor ups and downs in the value of sterling in London either in terms of gold or of commodities? One of the two currencies involved in the exchange rates, i.e. the South African £1, being then on a gold basis, would presumably be more stable than it is at present?—The British sterling—South African sterling rate, if we go back to the gold standard, would have of necessity to fluctuate then with the British sterling-dollar rate.

384. There are very extensive operations between London and New York. Yet those minor daily fluctuations in the rate, which in many cases reflect actual changes in the value of sterling, don’t seem to have any influence worth mentioning here on your rates?—No, but as already stated, our exchange rate with Great Britain has no relation whatever to our international trade position; this rate has been purely arbitrary.

385. Now, I am wondering whether, if you stabilize with gold, those daily ups and downs in the dollar-sterling rate would be likely to affect you promptly and quickly; whether your sterling rate would not remain more or less fixed over considerable periods and only respond to the more important changes in the sterling-dollar rate and not to the minor fluctuation?—I understand what you mean. Certainly we would not get the swift fluctuations in the rates such as we have between London and New York, where communications are almost every minute of the day.
Mr. Jacobus Damussse.

385. Is it not quite possible that you might have, not a sterling rate as stable as you have now, but a moderately stable sterling rate even if you were stabilized with gold?—I am of opinion that fluctuations of little consequence would not be reflected; but certainly any serious fluctuation would immediately be reflected in the rate, would have to be, otherwise speculation would immediately come in.

387. This speculation would come in largely through arbitrage transactions of one sort or another, and they would be possible on any considerable scale only through the development of direct exchange markets with New York and other financial centres, which you do not have now?—Yes.

388. If you had a direct exchange market with New York, don’t you think it would be much more difficult to maintain the same rates for months and months at a time? If you were operating directly with New York those fluctuations would give rise to possibilities of arbitrage in case the banks here should try to fix South African-sterling rates rather arbitrarily?—I think the management of the exchanges with Great Britain would be just as easy through the banks of New York.

389. Please explain what you mean?—Where the settlement of our trade obligations with America are now settled via London, why, if we elect to go back to gold and we maintain a parity with the dollar, should not our trade obligations with Great Britain, if any, be settled in New York? If South Africa maintained balances in America, there would at least be no danger of these balances depreciating, as they may do in London.

390. (Dr. Vissering.) Who can become a speculator in exchange when the banks quote the same rate for long periods at a stretch? You have no open money market?—We have no open money market in South Africa. Formerly importers and exporters found each other, and do so to some extent even to-day.

391. They found a clearing?—Yes, within the margin of exchange profit of the banks; in other words, the difference between the banks’ buying and selling rates.

392. (Professor Kemmerer.) When they find each other they divide the advantage?—They divide the profit. They say: “Well, we’ll meet each other half-way,” and the transactions are closed on those terms.

393. (Dr. Vissering.) They are not so dependent on the banks that they are obliged to go to them? They can go to an open market?—Yes; formerly, even the gold mines, instead of being dependent on the banks, used to go to the public.

394. So you expect it will be possible to create to a certain extent an open market here?—Yes.

395. With the assistance of the Reserve Bank?—The Reserve Bank might be of great assistance. I don’t know exactly whether they ever will. It is a question, of course, of rather far-reaching effect.

396. (Professor Kemmerer.) We have heard it stated in a number of places that merchants are more or less reluctant to carry on these exchange operations with other merchants because, if they are people that need accommodation from time to time from the banks, they fear that their bankers, when they find out that they are carrying on these outside operations, will become prejudiced against them and will discriminate against them when it comes to granting them accommodations. Do you think there is anything in that?—I can give you absolutely no answer to that. I don’t know of any instance of that nature.

397. We have a number of other lines we would like to follow up, but we want you to give us whatever message you think is important for us to have?—I was going first of all to apologize that I had not sent a statement, as requested. I had no time, unfortunately. I had no idea that I would be asked to appear before the Commission. I understand that the Commission has already interviewed Mr. Postmus, our General Manager, in London, and our views are very largely identical. I have been so exceedingly busy the last few days that when I received an intimation from
Mr. Middleton last Tuesday to appear before the Commission. I was entirely engaged up to Sunday morning, and I could not prepare myself properly for this hearing. The result was, I did not even receive your questionnaire. It only came into my hands this morning; otherwise I would have probably followed more or less on the line of that document. But I had very little intention of bringing the factors in favour of the return to the gold standard before you, because practically everybody in South Africa that has been dealing with this question is at one that we should return as soon as possible. The only question is whether the objections that some of them have are not so strong that for the time being we should not go back. These objections can, practically speaking, be divided into two. The first and more formidable one is the objection of the gold producers, the gold mines. The gold mines contend that it is absolutely essential for the low-grade mines that they should continue to benefit by the premium, and that, if South Africa returns to the gold standard immediately, quite a number of these low-grade mines will be closed, and naturally the number of unemployed will be increased to a large extent. I think there are one or two very large mines on the Rand. The E.R.P.M., I understand, is one of the mines which is supposed to close, although latterly I see considerable improvement is coming to that particular mine. That, I think, is the most formidable objection against the return to the gold standard.

398. What is the premium they are realizing now?—The premium is somewhere about 3½—Yes, understand between 3½ and 4 at the present moment.

399. The premium then is not large at the present time?—No, it is neutralized on that portion of the output required in South Africa for the paying of wages, stores, and various other expenses, to the extent of the discount rate for the sale of T.T. on London.

400. You get the benefit of lower working costs?—Yes, then, get the benefit now, and of lower realization expenses also with the export of the gold direct to India instead of via London.

401. That premium represents essentially the depreciation of the paper pound in terms of the gold pound?—Yes.

402. And if your paper pound were equivalent in value to the sovereign, it would then be more valuable than the sterling paper pound, roughly speaking, by the amount of that premium?—Yes.

403. Therefore its purchasing power, as soon as proper adjustments were made, would be greater by something like the amount of that premium?—Yes.

404. As soon as that situation is realized you would expect costs here to be proportionately lower by reason of the fact that you would be measuring them by a more valuable pound, would you not?—True, but although we have seen in South Africa, the last year and a half, discount quoted against Great Britain—a rate in favour of South Africa—their contention is that the prices in South Africa have not actually come down proportionately. I don’t exactly know on what grounds they base that contention.

405. Such index numbers as we have show that South African prices are lower compared with 1913 than British prices by very much more than the premium on gold?—Yes exactly.

406. On the basis of 1913 as 100, the wholesale price number for October, 1924, in South Africa is 132-90. My contention then with these figures is that, compared with the price index of Great Britain and even the price index of America, you are here at a lower level than these two countries, and consequently the merchants in South Africa must have given to the consumer all the benefits and even more than the benefits that accrued to them, owing to the favourable rate of exchange. You disagree then with those persons who claim that the benefits the importer receives from the high value of the South African pound in terms of sterling are not passed on to the consumer. You believe they are passed on through force of competition pretty promptly?—I must disagree, owing to these figures, unless they bring proof that these figures are incorrect.
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407. You think the figures bear that out?—Yes; the figures bear that out.

408. (Dr. Vissering.) You are comparing the figures of 1913 with the figures of to-day?—Yes.

409. Is it possible that the level of prices in 1913 in South Africa in comparison with other countries was at that time rather high?—Yes, I quite agree with that. In 1913 prices here were higher; we were not producing as much as we do to-day, and therein a certain amount of compensation must be found. But I am convinced that compensation is not equal to the great difference that appears in the actual price levels quoted. We are 32 per cent. above the 1913 price level in South Africa, whereas Great Britain is about 70 per cent. above the 1913 price level.

410. Finally, there has been a very great deflation in South Africa?—Yes; that, of course, the banking figures show very strongly.

411. The deposits and the advances?—Yes.

412. (Professor Kemmerer.) I have here a table of wholesale price index numbers in South Africa covering the years 1910 to 1923 inclusive, and they seem to show that there was practically no change in the price level of imported goods in South Africa for the period 1910-1913 inclusive; that South African products themselves rose somewhat during that period, i.e. from an index number of 1,000 in 1910, to 1,169 in 1913; and all groups of commodities combined rose from 1,000 in 1910, to 1,125 in 1913. So that, taking all groups together, 1913 was a higher year than the three years preceding or than the year immediately after. But for imported goods it was practically the same. We have with us Mr. Pearsall, of the Bureau of Census and Statistics, and I am asking to ask him to give us a brief explanation of how this base of 1,000 for January, 1914, is arrived at.—(Mr. Pearsall.) When wholesale prices were originally collected after the Census Office was constituted, which was in 1917, prices were obtained as at January, 1914, January, 1915, and each year up to 1919. In 1921 prices for the years 1910 to 1913 were obtained to link up with the year of the constitution of the Union. Subsequently the mean price between January, 1914, and January, 1915, was taken as a base for pre-war comparisons. It is now considered that that is not a satisfactory pre-war figure—the mean between January, 1914, and January, 1915; that prices did not rise until the end of the year 1914; and that the best pre-war figure, immediately before the war, is that figure of January, 1914.

413. (Professor Kemmerer.) So you believe that the figure for January, 1914, is a representative figure as a basis of comparison?—(Mr. Pearsall.) Yes.

414. And that is the figure used in these comparisons which we have been making to-day, when we speak of 132½ for October, 1924?—No; the 132½ is the figure recalculated with 1913 as base to meet the wishes of the League of Nations.

415. The 132½ then is the October, 1924, figure computed on the basis of 1913 prices as 100?—That is so.

416. You recomputed it merely by dividing all the figures by a constant?—That is so.

417. So it does not change the proportionate interrelationship of the figures?—That is so.

418. Mr. Dommisse, you were speaking of the possible disadvantages to the mining industry of losing the premium on gold and of having a more valuable South African pound than the British pound. About what is the discount to-day on the pound sterling in terms of the South African pound?—It is about 3½ per cent. That is, again, I must qualify that: from that portion that is utilized in South Africa for wages, stores, and various other expenses, the discount, about 3½ per cent., will have to be deducted.

419. That I appreciate. What I want to get at here is, the nominal advantage, namely, leaving out of mind such adjustments of prices of stores and of wages as you may have had, what is
the advantage to-day that the mines are alleged to obtain from the gold premiums: about what percentage?—About 3½ per cent., less the cost of realization, shipping, and so on.

419. So it is really much less than 3½ per cent.? In fact, the discount on sterling exchange in terms of South African pounds eats up practically all the premium in the process of the sales of gold in London that are brought back here?—Yes.

420. The gold value of sterling has been advancing fairly continuously since last January. The gold premium about a year ago was something like 13 per cent., was it not?—Something about that.

421. It is now about 3¾ per cent. The great bulk of the advantage then that the mines are supposed by many to have been obtaining from the gold premium has already vanished through the rise in the gold value of sterling and the decline in South African exchange. If sterling should continue to rise during the next six and a half months, say, between now and 30th June of next year, what would become of that advantage?—How do you mean the advantage?

422. The advantage the mines are supposed to gain from this premium, I will put it differently. Gold was at a premium of about 13 per cent. last January. It is now at a premium of about 3¾ per cent. If the rate should advance during the next six months as rapidly as it has advanced since last January, all of this advantage would disappear before 30th June of next year, would it not?—Yes, with the appreciation of sterling in terms of dollars that advantage disappears proportionately.

423. If sterling stays where it is for some time, the advantage would be so small as to be almost negligible?—Yes.

424. And whatever advantage exists is due largely to the lag in the adjustment of prices and wages here to changes in the value of sterling?—Yes.

425. So that, if sterling should stay where it is, the advantage of that lag would soon disappear from the fact that there would be an adjustment in South African prices and wages to the changed value of the pound?—Yes.

426. If that is true, then the only hope that the mines can expect to obtain through a premium on gold would be through a depreciation of sterling in the future?—Yes, that is to their advantage.

427. If the status quo is maintained they gain practically nothing?—That is so.

428. If sterling continues to advance they gain practically nothing?—It would disappear altogether.

429. Their only prospect of appreciable gain then would be for sterling to again depreciate in terms of gold?—Yes.

430. If sterling should again depreciate in terms of gold, as it did throughout 1923, and if South Africa should tie-up with sterling, it would be necessary, would it not, for South Africa to inflate in order to follow sterling on a downward course?—Yes; inflation would necessarily follow.

431. What effect would inflation of that kind have upon the cost of living in this country, in your judgment?—The cost of living would have to increase pro rata.

432. What effect would an increase in the cost of living that might result from such an inflation policy have upon labour?—Labour would naturally not be satisfied with the continued increase in the cost of living and to retain their wages at the same level as before. The result would be, you would get continued agitation in the labour ranks for higher wages, and not only in the labour ranks of the mines but right throughout the Union. I will put it differently; I don't consider this premium to be a justifiable charge. It is, practically speaking, a tax over and above the ordinary taxation that the Government of South Africa places on the community of South Africa; an additional tax on the community, with the consent of the Government, in order to keep a few mines in existence. It is a deliberate
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Depreciation of the South African currency for the benefit of a favoured industry and, by this means, a deliberate tax is placed on the community by the Government from which the Government does not benefit one iota. With regard to the few gold mines that are supposed to remain in existence to benefit from this deliberate depreciation of our currency, the benefit to the low-grade mines is indeed very small in comparison with those mines which do not need this subsidy.

433. I want to follow up that point a little further. You say that such a programme of inflation which would be necessary in order to follow sterling on its downward course, if the gold value of sterling should decline, would result in a substantial increase in the cost of living. You also say that would cause a great deal of discontent among labourers. How, in your judgment, would such discontent find expression?—Well, it is probably very strongly said, but I do believe, that the expression of discontent of labour in 1922 was very largely due to this particular increase of prices and the attempt of the mines, in face of this increase, to decrease wages too early and in anticipation of the deflation which was then setting in. There are two factors at the present moment in South Africa contending against each other: first of all, the holding on to a depreciated currency; secondly, the forcing down of wages. These two contending factors must eventually bring about a considerable clash.

434. Do you believe then that any substantial increase in the cost of living would cause a great deal of labour discontent and might eventuate in labour difficulties and strikes similar to the one you had in 1922?—Yes, decidedly.

435. Would the final result probably be that there would have to be an increase in wages sufficient to compensate labour for all or a considerable part of this increase in the cost of living?—That must be a natural corollary.

436. Suppose that under such pressure wages should be increased to allow for the increased cost of living, and that later England and South Africa should decide to return to the gold basis, what would happen then? I take it there isn’t much disagreement on the proposition that it is desirable for both countries to get back to a gold basis at an early date if possible. If there should be such an inflation, then with the resulting advance in the cost of living it would be looked upon merely as temporary, and people would still hope to return to a gold basis at the earliest possible moment. If that is true, then, in order to get back to the gold basis ultimately, it would be necessary for South Africa again to go through a period of vigorous deflation of the type she has gone through during the last few years?—Yes, if, of course, prices in other parts of the world have not increased, due to probably other causes. I am taking the possibility, for instance, of America, instead of sterilizing her gold reserves as at present, allowing the gold to a greater extent the ordinary function that it should perform.

437. That would be the result unless there should be a substantial depreciation in the value of gold itself, due perhaps to a change in policy on the part of America. If no such depreciation in the value of gold should take place it would be necessary for South Africa again to go through a period of vigorous deflation of the type she has been going through during recent years?—Yes, most decidedly.

438. In that case, prices would have to come down, and the cost of living would decline?—Yes.

439. As prices came down and the cost of living declined there would be increasing pressure for reductions in wages. What, in your judgment, would be the attitude of labour towards reductions in wages under such circumstances?—The same attitude as was experienced in 1922. There would be a most vigorous fight against such reductions.

440. If that is true, you would be faced with rather serious labour difficulties in case you should tie-up with sterling and
sterling go down, and in case later you should try to come back to gold parity. You would be likely to have labour troubles as a result of the inflation, and then subsequently labour troubles as a result of the deflation.—That is my contention.

441. If sterling continues to appreciate in terms of gold long before 1st July next the Union would be back to gold parity, as it is practically there now, and then everything would be all right. If, however, sterling should turn round and go, as it did in 1923, in the other direction, then, if South Africa follows sterling, she would have, in your judgment, these evil results?—These evil results would naturally follow.

442. So you think it would be a great mistake to follow sterling on any downward course that it might take?—Yes, most decidedly.

443. Then I take it you believe that this country should continue the existing legislation and, regardless of what may happen to sterling, should automatically return to the gold basis the 1st of July next?—Yes.

444. Do you think this country would have any difficulty in maintaining the gold basis when she had once returned to it?—I don’t think so. First of all, in regard to the objection of some of those who hold that if we return to the gold basis much capital will leave South Africa, I think that they base this argument wholly upon what happened in 1920. In 1920, as you will remember, the beginning of the crisis in South Africa occurred. It came all of a sudden on top of us. I think it was in the latter half of 1920 that the pendulum swung round very largely, and that instead of a large export we experienced an unprecedented import. Exchange swung round violently. The highest that we quoted was 8 per cent. discount from 1st May to 15th June, 1920, while on 30th November, 1920, we were quoting 5½ per cent. premium. There is no doubt that the remittances to Europe, to London especially, in the beginning of 1920 were on a very large scale. And it is on that happening that they base (I have not been able to find any other reason, from them) their argument that as soon as we return to gold parity, Great Britain should again move away from gold parity, so that we would have to quote a large discount against Great Britain, that a large volume of capital would leave South Africa. Now, my contention in regard to this happening of 1920 is that it was a very natural happening. All the merchants were in a very difficult position. They had, three or four years before that period, experienced great difficulty in having their orders for goods fulfilled.

445. Constant delays in fulfilment?—Constant delays. The result was that the bulk of these merchants if they required, let us say, 100 per cent. of goods, would order probably that quantity at four or five different points, expecting that only about 30 per cent. or 20 per cent. of each order, or even less, would be fulfilled. And the result of placing this excess of orders was that in 1920, when a large part was still standing open, all these orders got filled.

446. That is when the prices slumped, then all these people were active in furnishing the goods that had been ordered?—Yes, as soon as the Governments at war released the pressure upon the manufacturers, and the manufacturers could start manufacturing again for the ordinary trade requirements; the result of that was that the merchants had to provide for very much larger imports than in the ordinary course of events they would have had to provide for. But quite a number of them, in consequence of the great difficulty to replenish their stocks had no goods in their store at the time, or very little. The stocks were very depleted, and instead of holding stocks they had a lot of cash to their credit. That cash they utilized in those days in order to anticipate the payments they had to make for their goods on the other side which, as they knew, had to come. They realized perfectly well that after this tremendous influx of goods the reaction would take place, and probably one or two years would pass by in which very little would have to be imported, because their stocks were very much higher than their ordinary turnover
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justified. Many merchants tried to cancel their orders, but most of the shippers and manufacturers refused to accede to this request.

447. Was it not true on the other side that this very slump that caused the imports to be thrown into South Africa in such large quantities also tended to lessen the demand for South African exports, because the prices of your exportable commodities were going down in the world's markets, and it was difficult to obtain new orders on a declining market; so that it was difficult to pay for the imports, the excessive imports, you were bringing in, by new exports. The world was not willing to take those exports at anything that seemed like reasonable prices, so it was necessary to pay for imports to a large degree in other credits rather than credits resulting from contemporaneous exports?—To a certain extent I agree with you, but not to the extent that capital left South Africa, because capital has not left South Africa. There was a temporary transfer. That transfer came all together in so far as the merchants desired to take advantage of the 8 per cent. discount.

448. It was a sudden readjustment after the war?—Yes.

449. Such a readjustment is not, in your judgment, likely to take place again?—I hold that this happening in 1920 will not happen now, and going back to gold will have no influence.

450. Do you know if South Africa was alone in having this experience or if it was common to other countries?—I could not say. I have not studied other countries in that respect.

451. I would like to say in that connexion that during the last two years I have spent a large part of my time in South American and Central American countries, and that the same experience which you are now describing was gone through on a big scale in essentially the same way in nearly every South and Central American country that I visited.

452. (Dr. Vissering.) Also in the Dutch East Indies?—Yes; that I know.

453. (Professor Kemmerer.) So it is practically a universal experience as far as I know. It was a world slump in prices, a sudden post-war readjustment after the artificial situation that had been maintained during the war period?—Yes, precisely.

454. (Dr Vissering.) You are arguing that money balances were remitted to London, but against them goods were coming here and in the latter case the smallness of the amounts as compared to the remittances?—Yes.

455. So, finally, there was no flight of capital from South Africa?—No, it came back. Naturally, it was locked up in the form of stocks and did not all pour back again into the banks.

456. There was no flight of capital?—I contend there was no flight of capital at all.

457. (Professor Kemmerer.) I have a table here prepared by the Census Office which shows the imports and exports of South Africa by months over a period of years, and the figures bear out your statement in regard to the very great increase of imports relative to exports during the latter half of 1920. Your idea then is that the falling off of imports later was due to a considerable extent to the heavy increase in inventories during this period?—Yes.

458. And you believe that if one takes into consideration not a brief period of a few months only but a period of several years, you would get an average relationship of imports and exports for the period as a whole that would be normal, so that these trade figures afford no evidence of any appreciable flight of capital?—Yes, exactly; that is my contention.

459. Now, on the other hand, the point has been made by some people that the stabilization of exchange with gold would, instead of encouraging the flight of capital, encourage the investment of capital in South Africa. The fact has been pointed out that the world is more or less weary of fluctuating paper money, and that there is quite a tendency on the part of cautious and conservative people to try to put their investments in countries which have fairly stable currencies. For example, in
recent years we have had very heavy investments in America from foreign countries in spite of the fact that interest rates were higher in those countries than in the United States. I understand from Dr. Vissering that there has been a great influx of capital into Holland in much the same way. Do you think it is possible that stabilization on a gold basis here might actually tempt capital to this country instead of scaring it away?—I am absolutely positive of it. Last year I happened to be in Europe, and I think it was in the course of November that the guilder depreciated rather considerably as against the dollar. Speaking with quite a number of people in Rotterdam, Amsterdam, and The Hague, it was extraordinary to me that the same nervousness was experienced there as is experienced by some people here, but in an opposite direction.

460. (Dr. Vissering.) Too much capital?—I mean this, that at the time they expected, if the guilder continued to depreciate, that a good deal more capital from Holland would go over to America in order to place a certain portion of that capital in safety. Well, we have just the opposite here. The contention is that if we appreciate our currency, capital will go. It is just the other way.

461. You think it is the opposite?—Yes.

462. Capital is more likely to stay and be attracted here if you stabilize?—History has proved that. I think to a certain extent they base their arguments upon the happenings in Germany in the earlier days. That was a wild speculation, and I think many people have sore heads and empty pockets over that particular business.

463. There has been comparatively recently a very great flight of capital from Germany to gold standard countries, has there not?—Yes, that is so. Holland has had considerable experience of that.

464. Billions of marks flowed out of Germany to America and other places for investment, probably in order to avoid losses from the depreciation of the mark. We are in a very good position?—Yes, I have noticed that.

465. Our central bank has been for more than two years active in the exchange market, but we did not want to go back too abruptly to the gold parity. We did not want to go through a sudden or forced deflation. We have deflated gradually during two years, and we have used all the balances that we could get from the Dutch East Indian Government, the Home Government, and one of the municipalities, created by their borrowings in America and England, to regulate the exchange market. Now nearly all these foreign balances have been liquidated, and the Netherlands Bank's liabilities are about one milliard (950 millions notes, about 50 millions credit balances), covered by 50 per cent. in gold, 20 per cent. in balances mainly in America. We are not publishing that we are on the gold standard, and we do not maintain officially the gold standard, but what we are doing has practically the same result.

(Professor Kemmerer.) You are on a parity with gold?—(Dr. Vissering.) Yes. We did not promise to maintain it under any circumstances, but when England is ready and other countries join, we will do it, but practically we are on the gold standard now.

(Mr. Domnisse.) There are now four or five countries on the gold standard, is that not so?

467. (Professor Kemmerer.) Which five countries do you have in mind?—America, Sweden, Germany, the Netherlands, Switzerland, and now ourselves: we are practically speaking at the present moment on the gold basis or dollar parity.

468. Albania, Colombia, Venezuela, San Salvador, Nicaragua, Panama, Haiti, the Philippines are also on a gold standard, while Canada and Mexico are practically on a gold basis now, and a number of other countries have currencies stabilized with gold.
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although convertibility has not been resumed. Do you think it is a common expectation in financial circles that sterling will continue to rise in terms of gold?—Yes, I think so.

469. Do you think that in anticipation of a rise in the gold value of sterling there has been a movement of speculative funds to London?—That is very difficult for me to say. But I hardly think so. The principal rise has not been due to that.

470. Would it not be natural if the financial world expected sterling to rise, for speculators to buy sterling, with the expectation of selling it later and making a profit upon the transaction?—Certainly. The speculators have been extremely correct in the last few years, but I do not think that they have played a big part in this instance.

471. If that assumption is correct, a speculative demand for sterling, to take advantage of a prospective rise, would in itself tend to push sterling up more rapidly than it would otherwise go, would it not?—Yes.

472. Then it would also follow, would it not, that when sterling reaches parity or near parity these people who have been speculating for the rise, would sell sterling to take their profits, and that such sales would be a force for a considerable length of time pushing sterling down and preventing the clinching of the gold parity?—It is very difficult to express a really fixed opinion upon that. The very fact that sterling has appreciated so much in the last few months, when in the normal course of events it should have depreciated, owing to the large imports of the various articles that England requires during the fall—grain, cotton, and so forth, leads me to the conclusion that the speculator had very little to do with this unexpected rise. We have formerly seen always at this period of the year that sterling has depreciated, but instead of depreciating it has appreciated during the last few months. So there must be other factors than the speculative ones that have come into play.

473. If the financial world, watching sterling, feels that the people in England have made up their mind to go back to gold soon, and that they will get back to a gold basis, within a short period of time, would not that, in your opinion, cause a very substantial speculative demand for sterling? Here is a product on the market whose price looks as if it were going up and you can buy it in large quantities; if it goes up you make a nice rate of return upon your investment. Would it not be a very natural thing, as soon as the public anticipate that, that they would begin to buy heavily for that rise?—I quite grant you that the speculator has in the last few years been extremely correct, but in this instance I believe he had little to do with the rise.

474. Last year, 1923, he made a mistake, because sterling, after a long period of rising, turned round and went down. It had risen and went down?—I have not come across that particular incident. But in the last two or three years he has been extremely correct, not only in his dollar speculations but practically speaking in all other currency speculations. But still I do not think that the factor of the speculator is largely responsible for this particular rise. I think it is rather due to the altered attitude of America.

475. In what respect has America altered its attitude?—As far as I can see from the various financial papers I have noticed quite a large number of companies have been created in America, with large capital, with the special object of financing the industrial transactions of the continent of Europe. In several papers you see also that there are signs that quite a number of industrial concerns in Germany have received large credits from America. And all the assistance of America to Europe, no matter to what particular country it is given, will have an immediate effect upon the sterling rate.

476. Would you grant that, to the extent that this rise is due to a speculative demand such as I have mentioned, when sterling reaches parity there is likely to be a reaction in the speculative
attitude, and that the people who have been buying for a rise will then try to realize by selling?—I agree with you if the speculative demand is really preponderant.

477. To the extent that there is speculation?—Yes; the speculator will have to cover.

478. You are inclined to think these other important factors are operative and that the speculative demand is a minor matter?—A minor matter. Yes.

479. There has been some criticism here of the Reserve Bank. It has been claimed that the Reserve Bank for some reason or another has not been functioning vigorously enough to protect the interests of the public as regards the maintenance of reasonable exchange rates, discount rates, and so forth. Do you think it is desirable for the Reserve Bank to become more active in the market here, or should it continue to stand aloof from the open market, as it has been doing in the past?—In regard to the internal banking arrangements, I don't think you referred to that. You mean in regard to the question of exchanges.

480. One point that has been made is that the margin between the buying rate and the selling rate for exchange charged by the banks has been considerably larger than it was before the war, and merchants and others have been complaining that the margin is too large. Comparisons have been made with other countries, and it has been claimed that the margin here is larger than in any other important country in the Empire except Australia. It has also been claimed that it is desirable for the Reserve Bank, in order to encourage the use of trade acceptances in preference to the open book accounts and for other purposes in protecting the public, to reduce its discount rates and give more preferential treatment to the kind of paper the use of which it is trying to encourage. We would like to have your judgment on that?—That is an extremely difficult problem in South Africa. The problem of open accounts is a difficult one. I hardly think the Reserve Bank could make an appreciable improvement unless it were to make the margin a very large one as between the rate for discounting bills and the rate at which the banks are prepared to discount. It is in my opinion the people who might take advantage—the big merchants—do their financing to a very large extent through London, and in order to make any rate effective, a rate would have to be quoted equal to or below London. The time for this is in my opinion not ripe.

481. The big merchant who would use bills?—Yes, I understand most of the big merchants do their financing through London. They get no advances in South Africa as far as I understand. In regard to the encouraging of bills by the retailer, well, we have been very strenuous in our efforts to encourage our clients to work in this direction.

482. How successfully?—We are not materially successful as yet.

483. What is the reason?—We are offering the wholesale merchant a definite rate, a rate one to one and a half per cent. cheaper than the rate on advances. Yet we get always the answer, "it is impossible." The retailer will not accept. The trader is so accustomed to open accounts, that you cannot alter that system suddenly. The same open credit system as existed and still exists largely between the shipper in London and the wholesale merchant in South Africa exists as between the wholesale merchant in South Africa and the retailer. The wholesaler charges that person on the open account a certain amount of interest and above that whatever the retailer purchased the wholesaler draws for or makes the retailer pay at 30, 60, or 90 days. The retailer will then advance of this open account. With an open account it is very much easier to postpone payment than with a bill. And with regard to the 1 or 2 per cent. extra that the merchant pays for his advances from his banker it is very difficult for him to pass that on in a cheaper mode of financing his client. He can hardly make his prices very much cheaper. It is difficult for him to give
the client those advances which weigh up against the extra time that the retailer gets from him if he cannot pay his account. The open accounts run often for two or three or four months, and even longer than that, whereas one would not be able to make an internal bill payable for a greater currency than about 90 days. Some of the merchants, the wholesalers, have honestly tried to introduce the system, but it has always been a failure. I think over a number of years it may succeed, but one would have to exercise patience and not force matters.

484. Don't you think that it is desirable for the Reserve Bank, and the other banks too, in order to encourage this desirable development which you say is going to take patience to bring about, continually to discriminate in favour of bills so as to offer something of a financial inducement to the man who uses bills?—I fully agree. But this margin should be a matter of arrangement between the banks and the Reserve Bank. Latterly the Reserve Bank has deviated from that. The rate that is quoted against the advice of the other banks.

485. What do you consider to be the proper function of the Reserve Bank?—I look upon the Reserve Bank as having really functioned very properly and to the great advantage of South Africa. It may have been that the Reserve Bank has come a little too late, and so that a deflation process by that fact in South Africa has been too swift. I think myself it has been too swift. But the function that the Reserve Bank at the present moment exercises is really a pivot upon which our banking system in South Africa should eventually—I don't say it does yet—turn and depend upon.

486. How?—It is exercising to a very large extent control upon credit in South Africa.

487. It has been rediscounting, but nothing to speak of, excepting for one bank I understand?—That is so.

488. The banks, as I understand it, are not taking very much advantage of the Reserve Bank's rediscount facilities. The largest bank does not rediscount at all. I don't know to what extent you people rediscount. Apart from the function the Reserve Bank is performing in rediscounting for one bank, what other important function is it performing?—At the present moment I must say, apart from that instance, it is as yet not functioning as it should. As regards ourselves we are utilizing the Reserve Bank whenever we can do so. But the complaint has been made in South Africa that the banks do not provide sufficient credit; in fact, that they actually prevent legitimate credit transactions. I cannot speak for the other banks, but I must say here that in regard to the Netherlands Bank, that complaint has absolutely no foundation whatever in fact.

489. You furnish all the credit you think is justified?—We furnish all the credit we think is justified.

490. If there were more needed you would furnish it and would rediscount at the Reserve Bank, if necessary?—Yes, certainly.

491. How can a bank like the Reserve Bank, which is supposed, I assume, to be a sort of quasi-public institution and to have as its first concern the protection of the public, the welfare of the public, and not the making of money; how can such a bank function and perform its duty to the public unless it is in a position to go into the open market whenever it is necessary, to assure the public by its own open market operations equitable exchange rates and equitable discount rates?—That is only when the Reserve Bank really has control of the credit of the country.

492. It can do nothing until it has a certain amount of control?—At the present moment it has not that.

493. A Reserve Bank, unless it operates in the open market, cannot have a very great control in a country where there are only two or three commercial banks and where the principal bank does not rediscount with it?—No, that is so.

494. It cannot do that without competing to some extent with the other banks, at least for the best grade paper?—Yes.
Is it not the case that a certain amount of competition is inevitable if the Reserve Bank is to function at all properly? I suppose you really mean that the Reserve Bank would become the open market for export paper more than for internal paper.

For export paper and for the cream of the internal paper, for example?—Well, I doubt very much whether they would get a very large amount of cream.

What little cream there is?—I am sorry, I have not the figures with me.

Has South Africa reached a stage when its rate should approximate to that of older countries, America for example?—No, by no means. Credit will have to be purged still further and trade put upon a sounder basis.

We have not reached that stage?—That will not be for many years yet.

Do you think the present rates are too high?—The present rates are not too high, taking into consideration the trade and credit conditions of the country.

What is the usual margin you have between your deposit money and your minimum charge for the best secured overdrafts?—We have quite a different classification of fixed deposits, as you are aware, from the other banks—I should say a margin of 2½ to 3 per cent., which does not present a formidable gross profit.

Do you think there would be enough business for a reserve bank in a country like this to justify its existence, with as large a capital as this bank has, if it is to limit itself almost entirely to dealings with other banks and to making temporary loans to the Government?—I think it will if the banks really take the Reserve Bank seriously. If the proper relationship exists between the banks and the Reserve Bank and trade commences to improve, I think there is a scope for it.

What is your judgment in regard to this question of the Reserve Bank’s operating in the open market more extensively than it is now doing in regard to export bills?—I don’t think that the time is ripe as yet.

How can a reserve bank make the discount rate or its exchange rate effective in the interests of the public, in a country where there seems to be an agreement among the banks as to what the exchange and discount rates shall be, when it thinks it is desirable to force a reduction, unless it is in a position to go out into the open market and compete with the banks?—I doubt whether the Reserve Bank at the present moment would be well advised to take a step of this nature; if we go back to gold and trade improves, then the time will have arrived for the Reserve Bank to get more control.

To come into the open market?—Yes. The conditions under which the Reserve Bank came into existence, as you are aware, were practically speaking against the advice of the principal banks. They were against it.

Not your bank?—No, the principal banks, I said—the two banks. We were in favour of the Reserve Bank, of a central bank. We have been in favour of it for years; at least our principal officers have. But I think here again exactly the same difference of opinion which has to a certain extent existed in the Commonwealth of Australia is being worn down by patience; and I think here it should also be advised to have sufficient patience to wear down that antagonistic feeling, if it exists.

To have patience means you want time for development?—I hardly think it is a question of the stunting of the development. I must say, unless proof is brought before me that any of the banks are actually refusing good and justifiable business, I cannot accept that.

How can the Reserve Bank pay its expenses and meet its dividend requirements during this interim period if it cannot go out and operate in the open market in normal times?—Times are anything but normal now.
510. (Mr. Middleton.) You disagree with the Reserve Bank lending money to the Government, except presumably for purely temporary loans?—Yes; only temporary loans are justifiable.

511. (Professor Kemmerer.) How is it going to pay its overhead charges and its dividends?—That is again a question of how long it will last before the relationship between it and the commercial banks, that I foresee for the Reserve Bank in the future, will take to adjust itself. The Reserve Bank has actually arisen and been established here in a period of terrible deflation. More or less, the same has been actually seen in America of late years. The American Federal Reserve Banks, in comparison to the enormous nature of the business of the country, have had very little to do in the last few years. In fact, in comparison, the Reserve Bank holds more trade paper than the Federal Reserve Banks of America.

512. They made their large profits during the period of inflation and shortly afterwards. At the present time they are not making much, but they are operating in the open market, many of them to an increasing extent. We find here a considerable amount of discontent among business men and others with reference to the functioning of the Reserve Bank. We also find an agitation for a Government bank, which seems to be gaining considerable momentum in certain quarters. The question therefore arises, and I think it is one that must be faced: If the Reserve Bank does not come out and function more vigorously and give to a greater extent that protection to the public which the public thinks it ought to have, will not the result be that the public will demand a State bank and get it, a State bank which will undertake to do the thing the public demands; in other words, will not the result be that the Reserve Bank will be pushed off the map and a Government bank come in which will compete vigorously and effectively with the other banks that are now fearing so much any competition from the Reserve Bank?—Have you any classification of the parties who voice this complaint?

513. I can only say we have heard that opinion expressed in various circles. I do not know how much it is worth. We would like to know from you how important it is?—We have passed through a period of tremendous inflation in South Africa. Credits have been granted to a large class of people who never should have received any credit at all. And in my mind a greater number of those people who complain—I am talking now of the business people—to-day of the restrictiveness of credit on the part of the banks have no right to complain whatsoever. Real business transactions, real justifiable credit, I hold and maintain still—unless I could receive proof that it was refused by one of the banks—has not been refused yet.

514. One of the complaints that is frequently made has been the wide margin between the banks’ buying rate and selling rate of exchange. It has been urged that the Reserve Bank should come in and take an active part in exchange transactions and force the narrowing of that margin. What is your opinion of that criticism?—If the conditions of South Africa become stable, if we go back to the gold standard and our prices remain perfectly stable, then I think the banks can actually reduce that margin; and if they do not, the Reserve Bank should step in.

515. Then the Reserve Bank would perform no useful function in this connexion. The gold points would fix the limits of the margin. You would not need a reserve bank would you to protect the public in the matter of an exchange rate if both South Africa and Great Britain should return to gold parity?—Not fixed points are trying to find out the justification for this Reserve Bank?—I think the justification lies in its internal functioning. The Reserve
Bank has come in a period that was very necessary. It has functioned in that particular respect most adequately.

516. The Reserve Bank has functioned up to the present time, has it not, primarily in assisting one bank and helping it gradually to get back on its feet. Has it done anything else?—Up to now, no.

517. (Mr. Middleton.) It has unified the note system?—Yes, that was a natural corollary of its establishment.

518. (Dr. Vissering.) One of the duties of the central bank at the present time is to regulate and control as far as possible the foreign exchange market?—That would be a great fight. I doubt very much whether the fight could be sustained and whether it is justified.

519. If the other banks do not make a place for such a bank then it has to be obtained by fighting. We had the same thing in Java, and it was an entire success?—The point probably for the fighting has come very near. Personally, I regard the Reserve Bank with much favour, and I think it would be in the interests of the Reserve Bank to have somewhat more patience.

520. (Professor Kemmerer.) Do you not think that the time is here when it ought at least to begin to take a more active part in the open market?—I don't think it would be effective. In the quoting of exchange on Europe it may be effective, but not in the internal market.

521. (Dr. Vissering.) On the exchange market?—Yes, but not in the internal market. I don't think it would be effective there. And the question arises whether it would be advisable for the Reserve Bank. That is a question I have often thought of, and I have come to the conclusion that it is advisable for the Reserve Bank not to start this particular policy unless and until such time as a better spirit prevails. After all, it is easy for disappointed people to make a clamour, but that is not enough; they must bring actual proof that the commercial banks are acting unjustifiably.

522. (Mr. Middleton.) Before the war was it not the case that banks did not expect customers to restrict their exchange operations to their own bankers: it was regarded as quite a natural thing for customers to go round to different banks and accept the best rate. There was competition then?—I have already stated that.

523. Don't you think then that there is here a chance for the Reserve Bank functioning?—The fixing of the higher margin would perhaps not have occurred if things had remained normal. You are perfectly aware of the fact that the banks had enormous expenses to bear—additional expenses.

524. The larger margin was to cover expenses?—I should say so.

525. It was for a considerable period a quarter per cent. higher than it is to-day—the margin is now seven-eighths per cent. In February—March, 1930, it was as much as two and seven-eighths per cent.?—I don't think it was higher than one per cent.

526. (Dr. Vissering.) We have been told there is a kind of gentlemen's agreement between the Reserve Bank and the commercial banks here—that the Reserve Bank should not start competing with them. How far would such an agreement be consistent with the proper fulfilment of the duty of a central bank to come into the market to operate, especially in the open exchange market? What is your opinion?—If the Reserve Bank is quoting a cheaper rate, I should say it is competing.

527. What do you mean by 'competing'?—If they are to quote cheaper for bills.

528. My opinion of competing is, when you are doing the business primarily for your own profit, then you are competing. But if you are acting in the public interest, if you are only doing your duty, that is not competing?—It may not be the aim, but it is competition nevertheless.
Mr. Jacobus Domnisse.

532. (Mr. Middleton.) It should control competition?—Yes.

533. (Dr. Vissering.) But the Reserve Bank has given a promise to the other banks that it would not?—I don't know. They have quoted 3½ per cent. at the present moment. The gentlemen's agreement has already been broken, if there was one. They have quoted ½ per cent. under our rate now.

534. (Professor Kemmerer.) If the Reserve Bank cannot perform its proper duties without competing to some extent with the other banks, and if it is restrained from so competing, is it not? If the Reserve Bank is tied hand and foot so that it cannot compete, and by so doing perform its proper duties to the public because of a gentlemen's agreement or some other extra-legal restriction, then is not the public likely very soon to get rid of the Reserve Bank; and if it does get rid of it, is not the public likely to create another type of bank that will have greater powers of competition?—The gentlemen's agreement does not exist to-day, because the Reserve Bank has actually quoted a lower rate than we are quoting. At the same time I repeat that in my opinion too much is expected in certain quarters, expectations which are by no means disinterested.

535. (Mr. Middleton.) When was the rate first quoted lower?—About a month ago, or six weeks. I couldn't say exactly.

536. (Professor Kemmerer.) They rediscount for you at 4 per cent. They discount for the public at 6 per cent., and you discount for the public presumably at 6 per cent.?—No, somewhat higher; most of the bills are somewhat higher.

537. You make a bigger difference between the rediscount rate and the rate you charge the public?—Yes.

538. The Reserve Bank is doing practically no open market business; its market rate is an ineffective rate?—A totally ineffective rate at present, yes, for reasons already stated.

539. (Mr. Middleton.) The South African banks during the war increased their branches very largely?—Yes.

540. Could you say to what extent approximately? Did they double?—I would have to look up the statistics.

541. Would not that have had a tendency to diminish the amount of circulating money, notes and specie, increasing the use of cheques, and so doing away with the necessity for carrying as much pocket money?—It is very difficult with these country branches to give an immediate reply. It would be, I think, not to a very great extent.

542. Would you say that the present circulation of notes would have to be reduced in the event of South Africa returning to the gold standard? Is there any test which you could apply to an excess of notes?—There is no test at the present moment.

543. Do you think it would be wise for the Reserve Bank to withdraw any notes if we contemplate going back to the gold standard, to test whether there is an excess?—I would be guided by the circumstances. I would let the notes come back of their own; any redundancy will soon find its home.

544. You don't think the present circulation is excessive?—No, I don't think so.

545. You admit that, in the absence of convertibility into coin, there is no test that can be applied?—No, no test that I can find under present circumstances.
546. (Professor Kemmerer.) If they make their notes convertible into gold on demand, the test will be applied then, and they will take all the notes that come?—It must come of itself automatically.

547. (Mr. Middleton.) The tendency of South African banks has been to amalgamate. Is it still so?—I wonder.

548. (Professor Kemmerer.) There isn't much left to amalgamate?—That was going to be my reply.

549. (Mr. Middleton.) If, instead of a large number of small banks on the American principle, we are going to have a yet smaller number of banks, then it makes the position of the Reserve Bank still more difficult, unless it comes out into the open and functions pretty much in the way that the continental central banks function, say, the National Bank of Belgium, the Bank of France, and other continental central banks. Do you see any objection to a bank of that type? Do you think it could be adapted to South African conditions?—I think we ought to let the Reserve Bank, as I said, have a little more patience; and in time to come—and I don't think it will be very long either—it will take the place that it ought to take automatically.

550. (Professor Kemmerer.) Are you allowing it to have any place?—I think so.

551. In what respect?—Rediscounting for the other banks. If trade in South Africa is actually stimulated, that will be done to a constantly greater extent; at the present moment, trade is, practically speaking, stagnant.

552. Do you think the proper function of a reserve bank is to provide permanent capital for other banks?—Well, practically all the central banks of the world do that; they have bills under discount to a very large amount for the commercial banks the whole year round. It is not a question actually of permanent capital. It may be for a particular period that it is actually required, and I see no objection to that as long as its business is legitimate and the required emergency margin is maintained.

553. The more usual thing is to provide that the Reserve Bank shall be ready to discount the paper of other banks in times of emergency, but to expect that the ordinary working capital of the other banks should be furnished by themselves. Then in times when there are no emergencies, the capital and other funds of the Reserve Bank must be used to some extent in the open market in order to enable the bank to cover its expenses. If a reserve bank is going to make its rates at all effective and to exercise any considerable power over the money market, it must be in a position to go out into the open market and enforce its rates when conditions seem so to require in the interests of the public?—If you contemplate a reserve bank on the lines of the more closely settled countries where trade is very active, then I quite agree with you. But I think the proposition here is quite different.

554. (Mr. Middleton.) There is a central bank in Java?—But the trade of Java cannot be compared with this country.

555. The population is very much larger. There was a central bank in Java when the population was very much less. I think it was established ninety-seven years ago?—Java's trade is enormous.

556. (Professor Kemmerer.) There is a successful central reserve bank in Uruguay—a much smaller country with a much smaller population than South Africa?—I am not aware of it. It is not a question of certainty with me. It is a question, I think, that the bankers will see that it is to the best interests of South Africa to have a central bank functioning properly.

557. (Dr. Vissering.) It should be powerful enough to influence the market, otherwise it is of no use?—Yes.

558. (Mr. Middleton.) At present it has no influence, or very little?—I quite agree with you.

559. Either with the banks or the public?—Yes, that is true.
Mr. Samuel Evans.]
WEDNESDAY, 17TH DECEMBER, 1924.

Mr. Samuel Evans (examined).

560. (Professor Kemmerer.) What is your position, Mr. Evans?

Chairman and Managing Director of the Crown Mines. I should like to say that I am giving evidence on my own account. I am not representing the gold mining industry. The evidence for the gold mining industry you will get from the Gold Producers' Committee, I take it. These are my own views, and not necessarily the views of anybody else.

561. We furnished you a few days ago, when we invited you to appear before this Commission, with a number of questions which it was suggested you might use, if you cared to, as a basis for discussion. You have prepared a memorandum covering answers to those questions, I understand—I have. It has been rather hurriedly prepared, and there are slight modifications, not very important, that I should like to make in it.

562. The question before this Commission is the question of the advisability of South Africa returning to the gold standard on 1st July next without regard to what action may be taken by Great Britain between now and then with reference to returning to gold parity. Are you in favour of the gold standard being restored here and elsewhere in the world at the earliest possible date?—Yes. The sooner there is an absolutely free market in gold and the old-fashioned gold standard is restored here and elsewhere in the world the better for South Africa. The importance of gold to this country can hardly be exaggerated, and consequently it is to our interest that it should be used as money to the greatest possible extent in South Africa and in the rest of the world; and that that state of affairs should be brought about at the earliest possible date. We do not want people to get accustomed to do without gold. Delay in restoring the gold standard is distinctly dangerous from our point of view. The inclination of the British Government and people to return to the gold standard will tend to curtail the present British policy of keeping prices approximately steady with perhaps a slight upward tendency. In the course of a discussion on monetary reform at a meeting of the Fellows of the Royal Economic Society held in London on 14th April last, Mr. J. M. Keynes asked: "Why should we not aim for the present at keeping our own price level steady?" and added, "If after having done this successfully for a few years, we reach our old parity, I myself would have a great deal of confidence that the success of the method would justify its continuance, that after having kept prices steady without the use of gold for some appreciable time, we should be rather loath to abandon it and to follow the tide of involuntary inflation by linking ourselves once more to gold, which by hypothesis would have just been depreciating substantially." Another reason for restoring the gold standard at the earliest possible date is this: Under the present circumstances delay will almost certainly mean a further rise in prices and in the cost of living here, and this may, and most likely will, take place without any increase and may even coincide with a decrease in the premium on gold. An examination of the index figures of the wholesale prices of commodities and of the cost of living shows that the commodity value of gold has depreciated less here than in Europe and America. This is an abnormal condition, which is not likely to last. Indeed, it is certain that sooner or later wholesale prices and the cost of living here will rise to a level approximating that of Europe and America, should that occur whilst there is uncertainty here as to the restoration of the gold standard, prices and the cost of living may go to a very high level. Once that takes place the mischief is done, and recovery will be extremely difficult and troublesome, even more difficult and troublesome than it was after the inflation of 1919-20. With reference to the statement you have just made I would like to ask one or two specific questions. You say in your answer that under present circumstances delay will almost certainly mean a further rise in prices and in the cost of living
here, and that this may, and most likely will, take place without any increase and may even coincide with a decrease in the premium on gold. Why do you think delay will almost necessarily mean a rise in prices and in the cost of living? Is not England now returning fairly rapidly to gold parity?—Well, not by any action on the part of England. It is by a certain rise that has taken place in wholesale prices in the United States of America or a certain depreciation in the value of the dollar as compared with sterling.

564. What is your evidence that there has been recently any considerable depreciation on the part of the dollar as compared with sterling?—Looking at the index figures—Bradstreet is the one I have been following—they seem to me to have been going up to a greater extent than sterling in recent weeks.

565. The difference is rather slight though, is it not?—The difference is not very great, but it does seem to me that prices in the United States of America are tending upwards. According to Bradstreet, taking 1913 as 100, wholesale prices were down to 132.7 in June last, and they were up to 144.9 in October. I gather from the Commerce Monthly that in certain agricultural products there has been a considerable rise. Of course, prices have also gone up in England. The Statist index figures went up from 160 in June last to 171.9 in October.

566. Sterling has been tending upward with reference to the dollar practically for a year now, has it not; that is, sterling a year ago at this time was something like 13 per cent. below the dollar parity, and now it is about 31 per cent. below?—Yes. It went down after Sir Montague Barlow's statement in October, 1923.

567. I have here the American index figures, those of the Bureau of Labour Statistics, for wholesale prices. They show that the average index number for all commodities in 1922 was 149; that the index number for 1923 averaged 154; that in April, 1924, it was 148, and in September, the latest date for which we have the figures, it was 149. It dropped from 150 in August to 149 in September. And I have seen newspaper accounts to the effect that the October figure—the latest figure available—did not show any appreciable rise. A few commodities went up, but others went down, so that the average was practically the same. So it is difficult to find from this comprehensive index number any evidence that for any considerable period of time there has been a depreciation in the value of gold. In fact the evidence seems to show that gold, as measured by the American price index number, has been remarkably constant for a number of years. This is the index number of the Bureau of Labour Statistics, which is America's most comprehensive index number, and the one that I think is used more by economists than any other. It has the disadvantage of coming a little later than most of the others, but it is the best when it comes?—I see the Federal Reserve Board index number was 154 in June, 158 in August, and 156 in September. It went up four points in August and came down two points in September. It does not seem to me that the pound sterling has appreciated, measured in commodities, and the feeling I have is that there must be some depreciation in the dollar to account for the exchange rates.

568. The index numbers of the Bureau of Labour Statistics do not seem to show it. Is it possible that the revival of confidence in European conditions and the increasing prospect apparently that sterling is going back to parity have caused an increased demand for European funds and for sterling particularly partly in anticipation of the return of sterling to gold parity and partly for purposes of investment by America in Europe?—I think that is quite possible. When the Dawes report came out there was undoubtedly a feeling that its application would force England back to parity, and it is quite conceivable that a considerable number of people invested money in sterling in the hope of being paid back in gold eventually. That is, they thought they might gain £4 or £5 per cent. or whatever the difference was.
569. The depreciation of the pound sterling as measured by changes in index numbers in England, as compared with the United States, and the depreciation as measured by the cross-exchange rate between London and New York do not always correspond, do they? They move with varying degrees of lag; sometimes in the exchange rate representing a greater value and sometimes the index number of prices representing a greater value?—I think if you put the two sets of figures on a chart it is seen that there are periods lasting two or three months or perhaps more, when they do not coincide.

570. Might not this be one of those periods when exchange was advancing because of investments and speculative demands?—While the price level has not yet responded. That is quite possible.

571. You say again in your testimony, it is certain that sooner or later wholesale prices and the cost of living here will rise to a level approximating that of Europe and America. Will you kindly give us your reasons for that judgment?—There is no doubt that gold has depreciated less here than in pretty well any other country. There is now, however, a distinct danger that prices may take an upward move. Well, once they start upward, if we are not on the gold standard, it is very difficult to arrest the movement. We may find ourselves with a fresh period of inflation. That is the danger I fear. I feel that if we get back to the gold standard we shall have some anchorage, something that will tend to arrest any undue upward movement. Now, for the gold mines we want the present level of prices to last until we get back if possible to the gold standard. We don’t want another inflation, and if we continue with paper, having regard to the low level of prices here compared with elsewhere, I think there is a real danger of another inflation.

572. I understand from the reports of the Government Bureau of Census and Statistics here that the last monthly figures which they have compiled show a very decided advance in the price level in South Africa. Do you think a period of inflation has already set in?—I am afraid that there is no doubt about it. But if it were known definitely that we are going back to the gold standard on 30th June next year, that inflation would be kept in hand; it would not go out of control.

573. If you were on the gold standard you say that prices here must adjust to such a level as to be in equilibrium with gold prices in the rest of the world. Prices here are now below the world equilibrium, are they not?—Yes, but it depends where you start from. You must remember we were above the world equilibrium when the war started. We were paying much higher wages on these mines than were being paid on gold mines in the United States or in Western Australia.

574. Were wages here higher than in the United States at that time?—Yes, according to the report of the Chapman Commission that sat in 1914.

575. The cost of living is rather high in the United States as compared with most other countries. This is partly because of our high tariff and partly for other reasons. I was under the impression that the American wage scale, even in the mining industry, was higher than almost any other country?—Wages on the Witwatersrand in 1918 were higher than in any other country in the world, including the United States. The Economic Commission, of which Mr. (now Sir) Sidney Chapman was chairman, reported in 1914 and found that (Conclusions 3, 4, and 5)—

"(3) Wages on the Witwatersrand are nearly 40 per cent. higher than in America (where money wages are materially greater than in any other country examined) and nearly 225 per cent. higher than in any European country.

"(4) When allowance is made for cost of living as a whole, it would seem that the workmen on the Witwatersrand are better off than the workmen in America and much better off than the workmen in Europe.
Miners on the Witwatersrand earn more than any other workmen, but as they labour under so many disadvantages their earnings are not unreasonably high."

576. I have a table here recently published by the United States Government in a volume entitled "Depreciated Exchanges and International Trade" making a comparison of wages in the United States, Great Britain, and Germany which gives on page 56 the following figures showing the remarkable differences in very much.

In Great Britain at the current rate of exchange it was 58 cents; for masons it was 1.10 dollar in the United States; and in Great Britain 38 cents; and so on. The general level of prices and wages has been so much higher than in Great Britain, and your dealings have been so largely with Great Britain, that it is a little surprise to me when you make this statement that wages here have been so high compared to those in the United States?

I don't know whether it has been explained to you about the working costs on the mines here. You see, we commenced on a very high level. When Kimberley was started it was bare veld, and in order to get expert miners and other skilled men they had to pay very high rates. A pound a shift became a standard rate. That was at a time when perhaps 5s. or 6s. per day was an average rate in Great Britain.

Then the same people were responsible for starting the Rand gold mining industry. The Kimberley rates were continued here. The 20s. a shift became a standard rate.

577. And how long was a shift?—The shift was in the early days in the neighbourhood of ten hours, I should say. I suppose we were paying less about 1908-1909 than in any other period. After Union wages started going up. During the war, particularly in 1919 and 1920, wages went very high indeed. You have, no doubt, read Cairnes's "Australian Episode," where he deals with what happened in Australia after the discovery of gold. As in South Africa, the Australian gold miners were getting wages above the average of the country. The average rates on the mines here to a large extent fixed the rates in the towns on the reef; but they did not fix the rates in the rest of the country to any great extent. The saving clause, I should say, as far as we are concerned has been our native labour. The wages and other costs of our native labour have not increased to any material extent for the last fourteen or fifteen years.

578. Inasmuch as the cost of living has gone up very decidedly here during recent years, does that mean that the native labourer has suffered through this period?—No. We are feeding and housing him.

579. That does not cover all his expenses? You are feeding him, but as far as the money payment he receives is concerned he has been suffering, has he not?—There is very little difference indeed in the money payment.

580. But there is a difference in the purchasing power of the money he is receiving?—Yes, there is in the purchasing power, but so far as he is concerned it has not been so very great. His needs are few. He wants money to spend on agricultural products mainly, such as mealies. Well, these products have come down in South Africa to about the pre-war level.

581. If you feed him, he does not need the money to buy food supplies?—He does for his family.

582. But he needs money if he is buying any clothing or any miscellaneous items of one sort or another. There he needs money; he has' suffered there, has he not?—Yes, but at his kraal his needs are so small in these items that it does not affect him so very much.

583. But they are quite a percentage of his income even if his income is small, are they not?—I hardly think so. I think the most important payment he has to make is his hut tax.

584. The payments to the Government have increased, have they not, during this period?—I don't think so; not during this
period. I may say that the cost of feeding, housing, and medical attendance of natives at the Crown Mines in 1923 was lower than in any year since the Union of South Africa came into force, excepting 1910 and 1916, which were about the same.

585. I have a table here, which is on page 362 of the Official Year Book of the Union of South Africa, which contains the price index numbers of the cost of living, covering food, fuel, light, and rent.—That is for Europeans.

586. It shows for Johannesburg an advance from an index number of 1197 in 1913 to 1739 in 1920, and then it declined to 1373 in 1922. (Addressing Mr. Pearseall.) Do you know what the present figure for Johannesburg is?—(Mr. Pearseall.) It is not worked out.

587. So you maintain that the cost of living of natives, in so far as it is represented by the things the natives buy with money, has not materially increased since 1913?—(Mr. Evans.) What I maintain is that, as far as their food and what they buy of local products is concerned, it is lower, if anything. Where an increase has taken place is in the blankets and in any imported goods they may buy. But their wants in that respect are extremely small in their own kraals.

588. Has there been any discontent among the natives over the question of the rise in the cost of living?—There was, about the end of 1919 and the beginning of 1920.

589. You think there is no discontent now?—I have not heard of it recently. I should think if you would like evidence on that point, Mr. Taberer and Mr. Warner would be good witnesses to call.

590. Do the natives have any adequate method of expressing discontent over such a situation except through a strike or some other very vigorous action when the situation becomes so serious that they feel they cannot tolerate it any longer?—Well, as far as I know, there is not very much unanimity amongst them. They belong to different tribes, and they do not combine to any very great extent. If they did, of course, the position would be very serious.

591. They are not articulate in such matters? They don't have much chance of expressing their opinions and making them public?—A certain number do, but the mass don't. I am pointing out that the stability in the cost of native labour is one of the things that saved the gold mines here. The gold mines in other countries had their working costs up out of all proportion. Our working costs went up, say, from 17s. to 26s. and they have come down to 20s. or a little less than 20s., while the working costs of some mines in the United States have doubled.

592. I have here a table of price index numbers for different countries, and they show that, taking 1913 as the base of 100 and using the Board of Trade index numbers for England, the average for England is 167 in September, 1924; for the United States the Bureau of Labour index numbers were for September, 1924, 149; for South Africa the index numbers were 125 in July. This shows a very remarkable difference in the relative levels of prices in the different countries, and apparently shows that the index number of South Africa was very much lower as compared with pre-war figures than that of any of the other important countries mentioned in the table. Now, I take it you are maintaining that one reason for this is that the 1913 base was particularly high in South Africa as compared with other countries?—That is so.

593. I have here the index numbers of wholesale prices for South Africa, all groups of commodities combined, for the years 1910 to January, 1923, as published by the Government, and they show that the index number of South Africa was 1000 in 1910 and 1125 in 1913?—That is about 12 per cent. increase.

594. But you think in order to reach a world-equilibrium South African prices will probably have to rise somewhat?—Yes, I believe that. The danger I feel is this, that if an inflation begins here it will be very difficult to arrest it; and it is certain that there will be agitation not only amongst the whites, but possibly also
Amongst the natives for better pay. If we increase the pay for natives whilst there is a premium on gold, we shall never be able to trace when the premium disappears, all the many items in connexion with the remuneration of Europeans; once they are up we cannot get them down. You see when the premium was high, Rand working costs went up to about 26s. per ton milled in 1920, as compared with 17s. in 1914, but we have not been able to get costs much below on the average 20s.

595. Is that very near the pre-war level?—The pre-war level for the Crown Mines was about 16s.

596. And about what is it now?—It is now about 19s. 6d.

597. Do you think that is fairly representative?—It will be very difficult to get it much below that under existing conditions. There are certain items that are up that cannot be reduced very well.

598. What, for example?—Compensation for miners' phthisis. If it had not been for the big premium, the boom that took place, I do not believe that the Government would have made that compensation so high. But once it is fixed it cannot easily be altered. There are other similar items; once they are raised they cannot be interfered with. An inflation always leaves some items at a higher level.

599. Do you think South Africa should take steps independently of Great Britain to return to the gold standard?—Yes, seeing that since the beginning of last year Great Britain appears to have adopted a price-stabilization monetary policy and abandoned the Cunliffe Committee’s plan for the restoration of the pre-war gold standard. Under these circumstances the possibility of further depreciation of gold in England is a very real one. As I pointed out in my letter to General Smuts of 26th September, 1923 [Appendix 10 (a)], Mr. J. M. Keynes and other influential authorities in England hold strongly that England has “a big interest in gold having as low a value as possible.” It is urged that on every ground “it is a British interest (except for shareholders in gold mines) that gold should fail in value.” [See also Appendix 10 (g).] It is popularly supposed that our money to-day is linked with British sterling, and we are constantly being urged to keep it linked with British sterling. The fluctuations that have taken place in the exchange rates between South Africa and London in recent years prove conclusively that our money is not linked with British sterling. As things stand to-day, with irredeemable paper money as legal tender in both countries, the South African pound and the British pound are units of separate and distinct currencies. The purchasing power of one depends on the monetary policy of the Union Government, whilst the purchasing power of the other depends on the monetary policy of the English Government; and the two currencies can only be assimilated by one of the parties relinquishing its control over its own currency. Undoubtedly there is a great deal to be said in favour of a uniform currency for England and South Africa, but as a matter of practical politics it appears to me that that can only be brought about by the resumption of specie payments with free gold markets in both countries. It is unquestionably to our interests to return to the pre-war gold standard without delay. On the other hand, there is in England a large and influential body of opinion in favour of a managed money policy, having as its aim the stabilization of prices. [See Appendix 10 (g).] It is held that the inhabitants of Great Britain would gain enormously were they to succeed in stabilizing prices at, say, double the pre-war level. That, it is argued, would mean for England a reduction of 50 per cent. in the real burden of the debt and of taxation, compared with what would be the case were prices to revert to the 1914 level. Personally, I do not believe in the possibility of making a permanent success of a managed money. Moreover, I agree with the statement in the August Bulletin of the Royal Bank of Canada, that for a country so largely dependent as England is on international trade the ultimate advantages of a
return to the gold basis should outweigh the temporary disad

Mr. Samuel Evans.

advantages, as the probabilities are that other countries in Europe and elsewhere would follow England’s lead in resuming gold payments, thereby removing a good part of the handicap imposed on international trade by the exchange fluctuations of the last few years. As far as South Africa is concerned, however, there can be no question that the success of the managed monetary movement on the lines advocated by Mr. Keynes and others would mean in time doubling the 1914 working costs of our mines and closing down all but half a dozen or so of our richest mines, with disastrous results in many other directions. I dealt with this matter in (a) a letter dated 26th September, 1923, which I addressed to General Smuts [Appendix 10 (a)]; (b) an article on The Managed Money Movement, published in March, 1924 [Appendix 10 (b)]; (c) my speeches at the Crown Mines annual meeting, May, 1923, and on 25th May last [Appendix 10 (c)]. [Copies of these statements handed in.] I also attach [Appendix 10 (d)] extracts from the speeches of Mr. Baldwin, the present Prime Minister of England, in which he favours the substitution of a policy of price-stabilization for that of the progressive deflation recommended by the Cunliffe Committee. As far as I know this still represents Mr. Baldwin’s views. An extract from a statement made by the ex-Prime Minister in the House of Commons on 18th February last is added. It will be noted that Mr. Macdonald, when he was Prime Minister, stated that “The Government are still guided by the conclusions of the committee on currency and foreign exchanges, commonly called the Cunliffe Committee.” The accompanying table [Appendix 10 (e)] and chart of the fiduciary circulation of British currency notes confirm the view that the British Government are not now acting on the advice given them by the Cunliffe Committee.

600. In your answer to this question you say that fluctuations that have taken place in exchange rates between South Africa and London in recent years prove conclusively that your money is not linked up with British sterling. One striking fact in the exchange rates between South Africa and London, as I see them, is that they change very infrequently. I understand that the banks agree from time to time as to what the exchange rate will be and maintain that rate until a new agreement is reached; those agreements are apparently made very infrequently, despite the fact that the cross-rate between New York and London is varying continually, often several times a day. Yet the rates between South Africa and London sometimes do not change for months and months. Does not that seem to show that South African exchange rates on London do not respond very quickly to changes in the value of sterling, namely, its value in terms of gold or in terms of goods. I find here a table furnished by the Treasury giving the telegraphic transfer buying rates during 1923 and 1924. 1923 was a year in which the rates between New York and London fell enormously, and yet the extreme differences between the T.T. buying rates during 1923 in South Africa were from 3 per cent. discount to 14 per cent. discount, while the average per month of the rates between London and New York, as given by a recent official report of the United States Government on gold and silver statistics (page 243), during 1923 varied from a high rate of 469.57 to a low rate of 438. You seem to have a great stability between South Africa and London, despite the continual fluctuations in the value of sterling. Why should you not continue to have considerable stability in your sterling exchange rates if you should return to a gold basis? The South African pound is not now convertible into sterling on demand at par or at any other fixed rate?—It is, I think, quite possible for us to have considerable stability in our sterling exchange rates if we returned to the gold basis.

601. How do you explain the fact, with the great variations in the purchasing power of the pound in England over goods and over gold, that there should have been such a high degree of stability in the exchange rate between South Africa
and London?—I think the banks in fixing their rates may be indulging in a certain amount of gambling. They may feel that there is a chance of sterling coming to a parity some day, so they decide to leave money in London. I don't think that the rate is fixed on any scientific basis.

602. Under ordinary circumstances, if there was a failure for South African rates to move correspondingly with London rates, you would expect people to take advantage of this by arbitrage transactions with New York or through arbitrage with other countries. Why is that not done here?—I think it is absence of machinery largely.

603. Is there any exchange business done in South Africa directly with New York, Paris, Amsterdam, or any other important city?—I could not answer that. You had better ask some of the bankers or some of the people who are dealing with this matter.

604. If there are no direct exchange transactions with other countries, then the machinery does not exist to break down effectively any monopoly that the banks possess and might wish to exercise over exchange rates?—That is so.

605. Do you see any reason why the banks here should not quote exchange rates on New York, for example? Both of the leading banks here have agencies in New York City. There is considerable business done between South Africa and the United States?—I am not certain of the facts, but I rather think that the National Bank had some idea of doing exchange business with the United States of America when they established an agency in New York. And also the National City Bank of New York contemplated doing exchange business when they established a branch in South Africa. They closed up afterwards. But I think some attempt was made to get direct relations as far as exchange matters are concerned, between New York and South Africa.

606. You don't know why it broke down?—I don't know what happened. There is practically a monopoly here. There are only two banks, and they agree together. There is no competition.

607. The Reserve Bank does not compete with them at all in order to ensure the public an effective rate?—I am not aware that it does.

608. In the testimony we have heretofore had, and in a number of the memoranda we have received, one of the principal points that has been made by those who believe that South Africa should tie up with sterling is the claim that if South Africa goes to a gold basis, South African exchange will become very unstable with London and will move up and down continually, in harmony with the cross-rates between New York and London, and that this will bring great instability and risk in the exchange operations of South Africa with London. It is urged that this will be a serious evil, because the great bulk of the business of South Africa is done with England. Do you think that if South Africa stabilizes on a gold basis its exchange will fluctuate continually and rapidly with the ups and downs of the New York-London exchange rate?—It should do so to some extent; but I think that there will be a considerable lag. My feeling is that on the whole our trade will be benefited by having stability here at any rate. We will have something solid at this end; we will know where we are.

609. Has not the value of the pound sterling both in terms of goods and in terms of gold been fluctuating up and down very widely during the past year or two?—Yes; it has.

610. And yet the exchange rate between South Africa and London has changed very little, has it not?—It has changed very little, and, as I said, there is little or no machinery to effect any change that should take place. I believe that in the past some of the big importers and exporters did exchange business on their own.

611. They do so now, do they not?—Possibly, but I should say to a lesser extent. They may have come to terms with the banks. I believe that in the pre-war days De Beers, Jagger, Mosenthal, and some others dealt with each other, instead of going to the
banks and thereby saved the difference between the buying and the selling rates.

612. I want to go back to my earlier question: If the South African-London exchange rate in the last year or so has fluctuated only at infrequent intervals, despite the frequent ups and downs of the value of sterling, as measured by its purchasing power over gold and over goods, is there any reason to think it would not continue in the future to move only rather infrequently and with considerable lag in response to changes in the ups and downs in the value of sterling?—I believe that is so.

613. Even if you stabilize on a gold basis?—Yes; certainly.

614. In your testimony you say: "I agree with the statement in the August Bulletin of the Royal Bank of Canada that for a country so largely dependent as England is on international trade, the ultimate advantages of a return to the gold basis should outweigh the temporary disadvantages." Does that same statement apply, or does it not apply, to South Africa?—I think it does.

615. South Africa depends very largely for its prosperity on its foreign trade, does it not?—I should think it would.

616. And stability of exchange with other countries, you maintain, is a very great advantage?—Certainly.

617. Are you going to have a greater degree of stability of exchange, in your judgment, if the world goes back to the gold standard, as it is apparently trying to do now, than if the different countries of the world adopted systems of managed currencies for the maintenance of their price levels?—Yes. I certainly think a gold currency will be much more stable than any managed currency. There are always doubts in people's minds as to what politicians are going to do with a managed currency.

618. If the world should resort to managed currencies, the currency system would be quite likely to be different in different countries, would it not?—I should think it would.

619. You would not be likely to have a world-managed currency maintaining a world price level, would you?—No, I don't think so.

620. Would the widespread adoption of managed currencies bring great confusion into the situation?—Certainly.

621. There would be not only the risk of political influence, but there would be a different political influence in all the different countries?—Yes. Of course, there are managed currencies and managed currencies with or without gold. The Genoa Conference recommended a gold exchange standard.

622. The gold exchange standard is essentially a form of the gold standard?—Yes, but if it were a success it would be ruinous. The gold exchange standard is probably the most promising way of applying the managed currency idea. My understanding of the gold standard is as follows:—Treasury term gold standard is properly meant a currency system of 1923 and 1 unit of value to which the values of all kinds of money are assimilated, is maintained at a value approxi-

mately the equivalent to the value of a definite quantity of gold in a form of gold or bars. The maintenance of a gold standard as given by a instance of machinery for regulating the supply of gold in such a way that it will increase the value of gold in the world to a more than compensating rate and/or as the demand for gold decreases; and will decrease as the demands for gold increase unless the world value of gold is depreciating at a rate sufficient to maintain the value of gold and/or as the world value of gold. African pound are several varieties of the gold standard at par or at any other method by which the above-mentioned adjustment for the use of currency is made through the interchanges of various kinds of currency and circulating credit changes in the times of currency and circulating credit changes in the times of currency.
scarcity monetary gold is imported into the country, thereby increasing the supply of circulating media. The gold-exchange standard is a variety of the gold standard in which the gold reserves are kept abroad and redemption in either direction is effected through drafts.

Various methods of adjusting the supply of currency to the demands of trade in such a way as to maintain gold parity without interconvertibility of the circulating media and gold have been suggested from time to time, such as adjustments through varying the discount rate of the central bank or adjustments through purchases and sales by the central bank of securities of one sort or another, but up to the present time little has been accomplished in the direction of establishing such managed gold standard currencies and the world does not seem to be ready for them yet? I agree to that definition, but I am in favour of the old-fashioned gold standard with gold coin in circulation and all kinds of money convertible into gold on demand.

624. Would you say that when people speak of a managed currency they often have in mind the gold exchange standard? Isn't the gold exchange standard rather in its best form merely a phase, a form of the gold-standard in which an attempt is made to minimize the use of gold?—Yes, it is; but it involves co-operation and understanding between nations, that they should have a supply of gold at given points. It isn't self-regulating.

625. Cannot the gold exchange standard be made entirely self-regulating? For example, I happen to have worked with the Philippine gold exchange standard in its early days, and we had the system there that the local silver money was redeemable in drafts on New York in unlimited quantities on demand at the gold export point, and these drafts on New York were all payable in gold in New York. We also had the provision that exchange on the Philippines would be sold in New York by our representatives in New York in unlimited quantities at the gold import point for the Philippines. The result was that the movement of funds out of circulation, through the tying up of silver money in the gold reserves, took place whenever the exchange went to the gold export point, just as effectively as if gold had been exported out of the country; and the movement of funds into the country, which in this case meant the taking of funds out of the Government's vaults and putting them into circulation, took place just as effect­ively and completely as they otherwise would have by reason of gold importations, whenever exchange rates reached the import point. Here, in other words, was an absolute automatic arrangement, but redemption was in gold in New York instead of in Manila. Now, that isn't a managed currency. That is merely a form of the gold standard?—Somebody had to establish this arrangement in New York, and there had to be an undertaking to continue it.

626. The Government passed a law making the arrangement just as automatic as the gold standard?—It was not a thing done by private individuals.

627. You must pass a law when you provide for the coining of gold at a particular mint. You determine by law what your monetary units will be and the conditions in which gold is to be coined; your coineage charges, etc. In any case, the Philippine law was a simple law providing for automatic operation, practically as automatic as would have been the case under the strict gold standard?—Well, I consider that the gold exchange standard does involve Government intervention. That, it is true, is limited, but it is considerably greater in extent than is the case with an absolutely free market in gold with liberty to send the gold backwards and forwards and do as you please with it. I admit that viewing it from the world point of view, and not from any point of view, there is a great deal to be said for the gold exchange standard.

628. In referring to managed currencies do you have in mind the gold exchange standard particularly which ties up the paper money directly with gold and makes the monetary unit really the
value of a given quantity of gold, or do you have in mind paper money currencies which are not directly and specifically tied up with gold and which do not make the value of a given quantity of gold the monetary unit?—I have both in mind, and particularly Mr. Keynes's proposals that the currency should be so managed as to regulate its value in goods, not by means of gold, but by means of an index number. That, of course, might prove very disastrous for us, because when it has been discussed they have talked of fixing the index number at, say, 185 as compared with 100 in pre-war days.

629. That is an arbitrary figure, is it not?—Yes. The editor of the Economist suggested 200. That would be absolutely disastrous for these mines. To increase our cost even 50 per cent. as compared with pre-war days would close down the greater part of this industry. Now the Genoa proposals were the gold exchange standard, but the idea was to economize gold as much as possible so as to diminish its value, measured in commodities, and keep it at a low level. Obviously that is a managed currency, and that is a currency that might also have very disastrous results for us, although not so disastrous as the other one.

630. Is any one seriously advocating a managed currency for South Africa?—Well, I believe there are here advocates of managed money, but I don't know that they have very much to say for it.

631. If the world, in the interests of economizing gold, or in the interest of stabilizing the price level, should think it desirable to adopt a managed currency, the fact that it would hurt the peculiar interests of South Africa would not be likely to have very much influence in the consideration of the problem, would it?—Well, it all depends on what South Africa did. In the affairs of the world in recent years South Africa has had considerable influence.

632. Largely because of her gold production?—Yes, and because of the part her statesmen have played in the affairs of Europe.

633. After all, measured in population and in almost any other way, South Africa is a very small percentage of the entire world; and if it was to the interests of the world to adopt one of these plans it would hardly be expected that the fact that such adoption would hurt the interests of South Africa would have very serious influence, or ought to have very serious influence?—It would depend on the attitude of South Africa. If our Government took the matter up seriously it might have influence out of all proportion to the numbers of our population. My own feeling is that managed currencies will eventually fail, but they may succeed long enough to ruin South Africa. I think all experience tends to show that nations cannot agree to act together for long on anything, and that sooner or later managed currencies will come to grief. Somebody will overdo the thing.

634. Is it necessary to have agreement among nations on this point: Suppose England should adopt a managed currency plan of its own. Do you think the adoption of such a plan would be a safe policy for England to follow, and that it would be likely to be scientifically carried out, on grounds essentially economic in character and without material political influence?—I don't believe myself that a managed currency could be made a success in England for any great length of time.

635. And why?—Because of political influence; because of the politician. The politicians would abuse it. It would be constantly an issue before Parliament; it would not work harmoniously.

636. You think there would be pressure brought to bear on the authorities that were regulating this to inflate or to deflate?—I take it the attitude of the industrialists and of, say, the present interest of goods for export, who constitute a very substantial portion of the producers in England, that their idea would be gradually to inflate the currency. That would suit them. They would not put wages up in the same proportion. It would be a means of reducing their costs without people knowing it.
637. How would it affect their indebtedness? Most of those concerns have very substantial bonded indebtedness, do they not? How would such an inflation policy affect their indebtedness?—It would help them. It would lower the burden of their indebtedness.

639. That would be another reason for this pressure then?—Certainly. The same reason, I take it, as the industrialists in Germany had.

639. But labour, on the other hand, would be likely to oppose any such measure as that, and likewise the people who are living on fixed incomes and people who have accumulated savings? And would not the interplay of opposing forces be so effective as to prevent any programme of inflation or deflation?—The people who are in favour of what is right and sound in a case like that are very often, to a large extent, inarticulate. There is nobody to champion their cause. I have not heard of the middle classes and of the people that have been ruined in Germany by what has taken place there really combining and making any very great fuss.

640. Would you say that labour is inarticulate in Great Britain?—Labour, if it got higher wages in proportion to the inflation, would be pacified; provided they got a higher rate of pay, they would be prepared to allow inflation to take place. The labourers who would suffer the most would be those that are inarticulate; the farm labourers and others that are not combined. Labourers in towns and who are combined could stop building a house unless they got an increase of pay when an inflation took place. Even in their case there would be a “lag.” I think an American authority said that “prices go up in the lift and wages have to walk upstairs.”

641. When labour is unorganized and inarticulate, it is quite likely to suffer in these important price changes arising from inflation and deflation?—Unquestionably.

642. That is true in South Africa as well as in Great Britain?—Everywhere, I should think.

643. 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 1819?—The Resumption Act of 1819, known as Peel’s Act, required the Bank of England to resume specie payments by stages, redeeming its notes on demand (when tendered to “an amount of not less than the price or value of 60 ounces” of standard gold) in ingots or bars of standard bullion (“the same having been first assayed and stamped at His Majesty's Mint in England”) at the following rates:—1st February, 1820, to 1st October, 1820, at £4. 1s. per ounce standard; 1st October, 1820, to 1st May, 1821, at £3. 19s. 6d. per ounce standard; 1st May, 1821, to 1st May, 1823, at £3. 17s. 10½d. per ounce standard; and thereafter in gold coin. By the Act of 7th May, 1821, “making further provision for the gradual resumption of payments in cash by the Bank of England,” the bank was allowed to pay in coin or in ingots as it pleased. Payment in ingots of 60 ounces was permitted till the 1st May, 1823. The bank, however, resumed payment in coin after the passing of this (1821) Act. I doubt if we in South Africa have anything to gain by resuming cash payment in stages. On the whole, and in view of the fact that the South African paper pound is almost on a parity with gold, I should say that the complete restoration of the gold standard on 1st July, 1925, would be preferable.

644. Referring to this table that you give, I note the dates given in the plan and rates of advance toward gold parity. I would like to ask how near gold parity approximately is the South African pound at the present time?—Taking the exchange into consideration, we are practically at parity; that is, we are better than England was in 1820.

645. About what is the length of the periods that were provided in Peel’s Act for the different stages of advance toward parity?—The first period in Peel’s Act was from 1st February, 1820, to 1st October, 1820—that would be eight months.
Mr. Samuel Evans.] 646. The second period was from 1st October, 1820, to 1st May, 1821?—Seven months.
647. And the third was 1st May, 1821, to 1st May, 1823?—Two years.
648. In each case the amount of rise to be provided for was much greater, I take it, than the amount of appreciation necessary to bring the South African pound back to parity at the present time?—Yes.
649. The date fixed for resuming specie payments in South Africa, according to the present plan, is 1st July, 1925, which would be only about 6½ months?—Yes.
650. Considering the close approximation to parity at the present time, and of the length of the period between now and the date fixed for resumption of specie payments here, do you think that a scheme of this kind would be desirable?—No.
651. If South Africa at the present time should announce definitely that she intended to return to a specie basis on 1st July, 1925, in accordance with the existing legislation, what would be likely to happen to the exchange between now and that date?—Well, it is very difficult to tell without knowing what the English policy is going to be. I should say it would remain pretty steady.
652. In case the public were assured that the present legislation is to become effective, would not the South African pound become practically a non-interest-bearing promissory note of the Government of South Africa to pay one sovereign per pound on demand on 1st July of next year and thereafter?—Yes.
653. In that case could the South African pound depreciate appreciably below the present or discounted value of such a promissory note?—No, of course not.
654. So that, from the investment point of view, it would be necessary for the South African pound to advance progressively toward parity on 1st July of next year regardless of what monetary forces tended to push it back?—Yes.
655. Do you think that the Government should make a definite announcement of its intention to resume specie payments on 1st July of next year or should it take no action whatsoever, simply letting the present legislation stand, without public announcement?—I think myself it would be very helpful if they made the announcement. It would tend to stabilize things. I certainly think it would improve the position of the exporter. You see the exporter now has to pay some insurance to cover possible fluctuations in the paper pound. He would not have to pay that insurance when there was certainty as to the value in gold of our pound. The banker, the merchant, the shopkeeper, everybody wants to charge something extra, when there is a possibility that the paper pound may fluctuate. But when they know that it is to be gold there is no necessity for that insurance.
656. You think it would eliminate a number of the expenses at present due to the uncertainty as to what will happen?—Yes, certainly.
657. Do you think such an announcement would have any effect, either favourable or unfavourable, on the investment of foreign capital in this country?—It would unquestionably attract foreign capital.
658. Why?—Because it would be one of the few countries where there was certainty as to what was going to be the future value of the money. It isn't going to be something dependent on the will of the politician. It is going to be gold, the value of which depends on the cost of its production; not on anything the politician may do.
659. What would be the effect of South Africa's returning to the gold standard independently of Great Britain on (a) prices, (b) on wages, (c) on production, (d) export trade, (e) import trade, (f) Union Government's finances?—(a) and (b): There will be fewer and less violent fluctuations in prices and in the cost of living, and consequently in wages, owing to the greater stability of the gold standard as compared with irredeemable paper. (c), (d), and (e): The restoration of the gold standard will be helpful
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to production, as it will mean fewer risks and greater security for capital. This also applies to our export and import trades. Our trade with the outside world is in reality barter. It is generally an exchange of goods for goods, and under a paper currency régime that is almost entirely the case. In pre-war days our exports could have been paid for, wholly or partly, in gold, which was then the money of England and of South Africa; but to-day our exports cannot be paid for in Bradburys as Bradburys cannot be used as money in South Africa. Neither can imports from England into South Africa be paid for in our paper money, as that is not legal tender in England. Now, whilst the paper money régime lasts, it is obvious that the expenses connected with the exchange of South African products for British products are bound to be higher than they were in pre-war days, owing to the uncertainty as to the relative values of the two currencies. The restoration of the gold standard here is therefore bound to be helpful, as it will remove a good deal of the uncertainty as to the value of our money at any rate. The South African paper pound has a greater value to-day than the English paper pound, but the South African exporter is not getting the full benefit of that greater value because of the uncertainty as to how long it will continue. The restoration of the gold standard will remove that uncertainty, and the South African exporter will then get better value for his products than is possible under the paper money régime, simply because there will be no necessity for bankers, merchants, and shopkeepers to insure against possible violent fluctuations in the value of one, at a premium, in the currencies. The restoration of the gold standard will undoubtedly aggravate the burden of taxation. The remedy is for the Government to curtail public expenditure so as to permit of a reduction in taxation. That is a much lesser evil than would be the continuance of an unstable currency.

660. I would like to ask one or two questions in regard to what you have said as to the influence of stabilization on the export trade. One of the principal arguments advanced by those who wish to tie up the South African pound with sterling is that, if South Africa goes to a gold basis before England does, the exporter in South Africa will suffer heavy losses and, it is claimed, this would be particularly true of the mining interests. The usual argument is that inasmuch as the South African pound will become more valuable than the British pound, persons selling goods in Great Britain—which is your principal market—would receive proportionately less South African pounds for what they sold than if gold should be sold at a premium in Great Britain, the entire premium would be lost in remitting the proceeds of the sale to South Africa; and that this would be a very serious thing from the standpoint of export interests here, and particularly from the standpoint of those mines which are working on a very narrow margin of profit. What is your judgment with reference to that?—You will observe in the third paragraph of my statement I point out that, as a matter of fact, we are paid for what we export in goods in the main; and that as far as the ordinary exporter is concerned, the wool exporter, for instance, he should be better off when there is stability at one end, when there is stability at this end, because he would get more goods to the extent of the charges due to the uncertainty as to the value of our money. As things are to-day, measured in money and also in goods, he suffers. He suffers because of the uncertainty as to the value of our money. In the event of there being a further inflation in England as compared with the United States, for instance, and the premium went up, there is no doubt that gold mines would lose something for a time.

661. They would not be able to get any of that premium?—That is so. But on the other hand they would not have trouble with their men owing to the rise in the cost of living. They would avoid that trouble. Taking the mining industry as a whole, it has lost infinitely more through the increase in costs than it has gained through the premium. I think I dealt with that in my
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speech at one of the annual meetings of Crown Mines shareholders, and showed that the loss had been double what we had gained.

662. If the South African pound should be stabilized with gold, and the British pound should depreciate in terms of gold, then the South African pound, of course, would have a higher gold value than the British pound?—That is so.

663. What effect would that have, in your judgment, on the comparative price levels in the two countries?—It would prevent the price level here from rising with the British price level. It would keep it steady. It might even lead to a slight reduction in our price level. It might improve the position as far as costs are concerned.

664. The premium on gold in London represents the depreciation of paper in terms of gold, I understand you to say?—That is so.

665. The exporter, according to your statement, I understand, is commonly thought to gain from that fact, through the fact of the delay or the lag in price adjustments and wage adjustments in this country, as the gold premium moves?—That is so.

666. How long a lag do you think there is between a substantial advance in the gold premium in England and the corresponding advance in prices and wages in this country?—The gold premium became very high at the beginning of 1920. We had considerable agitation amongst our people, and we had to increase the costs pretty rapidly; increase wages, improve conditions, reduce the working hours, give more holidays, etc., so that our costs went up by April, 1920, to about 20%. The lag was not very great. Of course, the increase did not apply to everything. It did not apply, as I have said, to native wages. It did apply to native foods. Agricultural products also went up then.

667. Do you maintain that whatever benefits the exporter and the mining interests obtained through this premium continued only during the brief period of this lag?—Yes. Of course they got a little more on account of the natives. Their wages did not go up.

668. That is, because the lag is longer?—Yes.

669. But the benefit accruing through this period of readjustment, and until the readjustment takes place, is not a permanent benefit?—No, it is not permanent.

670. If South Africa should permanently fix its currency at gold parity, and Great Britain should permanently fix hers at another, there would be no permanent advantage from such a difference?—The benefit is only temporary.

671. And as soon as the adjustment took place the benefit would disappear?—That is right.

672. The mining interests and the export interests gain on the lag during the period of inflation?—Yes.

673. Do they gain on the lag during the period of deflation?—No, of course not.

674. They lose on the lag during the period of deflation?—They must lose. As a matter of fact, there is a certain permanent loss. What they do recover they recover very slowly. It does not come at the same time as the deflation takes place.

675. Then if South Africa is determined sooner or later to go back to a gold basis, with her pre-war gold monetary unit, any inflation now would necessarily be followed by a corresponding deflation?—That is so.

676. And presumably any gain that the export interests and the mining interests realized during the period of inflation would be lost during the following period of deflation?—Yes; they would lose more.

677. The only method, then, according to your statement, by which these interests could gain continuously would be through a continuous and never-ending process of inflation?—That is so.

678. Do any of them advocate such a policy?—Well, one has heard about a mild inflation; that there is a certain advantage in a mild inflation. I believe an important Member of Parliament, representing a Rand constituency, stated in the House of Assembly...
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when the Currency and Banking Act Amendment Bill was under consideration, that he was definitely in favour of inflation, provided it was not overdone.

679. Does that mean indefinitely?—I don't think he fixed a date for it, but he stated he was in favour of it.

680. I take it that the benefits the exporting interests receive are not from an inflated currency but from a currency that is in process of inflation?—Yes.

680A. The benefit is one that accrues from the lag in the adjustment of prices and wages during the inflation process?—Yes, due to a mal-adjustment, while the inflation takes place. Once the adjustment is completed, then they gain nothing.

681. Your idea is that if inflation is to be followed by subsequent deflation, those gains are lost and more than lost in the process of deflation?—Exactly.

682. If Great Britain should continue to advance toward gold parity, at the rate she has been advancing during the last twelve months, she would be practically on a gold basis before 1st July of next year?—If what has happened recently continued.

683. At the rate of 1924 to date, or even at half that rate?—Yes.

684. If Great Britain should stay where she is, South Africa would still be at practically gold parity?—That is so.

685. Then the real problem before the Commission is, if Great Britain should not continue her present policy, or if the gold value of the pound should not continue to advance, or should not stay where it is, but should decline, should South Africa follow her on the decline? If the gold value of the pound sterling should decline, and if the South African pound having been tied up with sterling, should be compelled to decline in its gold value along with sterling, inflation in this country would be required?—I take it it would.

686. And what effect would such inflation, for the purpose of maintaining stability with sterling, have upon the cost of living in this country?—It would increase it.

687. What effect would it have upon the demands of labour?—Immediately there is an upward movement in the cost of living, then there is fresh agitation for increased pay, and trouble and strikes.

688. You think that such rise in the cost of living would result in demands for increased wages, and that would cause trouble and strikes?—Certainly.

689. Would it be necessary, in your judgment, as a result of such trouble and strikes to raise wages as the cost of living went up?—It is very difficult not to. You see, the matter will be referred to arbitration boards and commissions, and if, in their judgment, the men are entitled to increases, it is very difficult for the mining industry to resist, notwithstanding the fact that they are not benefiting by the inflation.

690. They would be receiving an increased premium?—Yes, but the chances are that the increased premium would not be in proportion.

691. In the past, I understand, they have gained because the premium has come quickly and the response in wages has lagged behind?—They have gained temporarily.

692. Would they not do that in the future?—Oh yes, they might gain temporarily. That is quite possible. But wages, once they have been put up, cannot be easily reduced when the deflation comes.

693. If you went through such a period as this, following sterling down, and the cost of living went up and wages were finally forced up under the influence of strikes and labour troubles of one sort and another, you would then find that deflation must again be resorted to in order to get back to the gold standard?—Yes.

694. Do you believe that South Africa is determined to return to the gold basis, with the pre-war sovereign as its unit of value?—As things are today, yes. They might, of course, in 1920 have returned to a sovereign with, say, 85 grains of gold instead of 113. At that time a leading journal in England advocated that the
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pound sterling should be devalued to that extent. There might have been a great deal to be said for that then.

695. You think that is out of the question now?—Now it is out of the question. It is not practical politics to-day.

696. If the currency should again be inflated to follow sterling, in case sterling should decline in its gold value, you might return to that condition?—Yes. Devaluation would suit the gold mining industry.

697. Why?—It would enable us to pay with less gold our wages and our other costs.

698. That likewise would be only temporary. Your only advantage then would be in the fact that you don't raise wages quite so rapidly as the pound depreciates? As soon as that lag was taken up you would lose all that gain, would you not?—It all depends.

699. Supposing the inflation had gone up so as to depreciate the pound by the difference between 113 and 85: if we reduced the gold contents of the pound to 85 grains, it seems to me that that would be equivalent to a deflation which would compensate for the inflation that had taken place.

700. You could not permanently depreciate costs by reducing your monetary unit?—No.

701. I take it you believe that if South Africa should tie up with sterling, and if sterling should depreciate again, that South Africa following her, it would be probable that South Africa would want to return to the gold basis later with the present sovereign as its monetary unit?—Yes, I think so.

702. In that case deflation would be necessary?—Yes.

703. What effect would this deflation have upon wages and upon the demands of labour?—The deflation would create trouble. The men would resist any decrease in their wages.

704. Wages would have to come down because the value of the pound had gone up?—Yes.

705. You say the men would resist?—Naturally.

706. With what result?—With the result that we might have strikes and some mines might close down.

707. If I interpret you correctly, in case England stays where she is, or continues to advance towards parity, there would be no serious trouble; the problem would be more or less solved?—Yes.

708. If, on the other hand, England permits the pound to depreciate, and South Africa follows England on its decline, the consequences to this country from the standpoint of labour conditions and wages would be very serious?—Yes, that is so, and might be very serious indeed for the agricultural community. Take the case of the wool farmer. The wool farmer is getting his sheep shorn by natives to-day at about one-third of what it is costing the wool farmers in Australia. If there is an upward movement in native wages generally, it might mean a very serious additional charge on the exporter of wool in this country; and, once the charges are put up—they are low now—it would be extremely difficult to bring them down.

709. So much depends upon the probable movements of sterling during the next year. What I would like to ask you is your opinion as to the probable movement of sterling?—Well, the feeling I have is that it is quite possible that there may be a fresh inflation in England. As things are at present, it is obvious that they are not carrying out the recommendations of the Cunliffe Committee, and have not been doing so for a year and a half pretty well.

709A. What evidence can you give us in support of that conclusion?—It is, I believe, generally admitted in England that the Cunliffe Committee's policy is not being carried out. 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 is stated:—"If the return to par involves long-drawn-out deflation, it will certainly not commend itself in this country until we have got much nearer to the point of absorbing the unemployed. Unless, therefore, American prices move upwards, the Cunliffe policy must remain in suspense." (Page 45.)
Further, a comparison of the fiduciary circulation of British currency notes this year (1924) with that of 1923, when Cunliffe Committee's report has been shelved for the time being, shows that the recommendations of the Cunliffe Committee involved a progressive but gradual deflation until they got back to parity with gold. It was provided that the maximum issue of one year should be the legal maximum issue of the following year.

709. Should not be exceeded?—Should not be exceeded. This was carried out in 1921 and in 1922, but in the early months of 1923 apparently that policy was abandoned.

710. Did they exceed the maximum of the preceding year?—No, but instead of a gradual deflation, a gradual reduction of currency notes, they went in for a policy of price stabilization; and it would appear that that policy has been carried out ever since. As a matter of fact, prices have gone up since then. I have a table, giving the fiduciary circulation, and I have also got a chart showing how the fiduciary circulation has gone from 1919 up to about a month ago. I am putting those in. [Appendix 10 (e).]

711. Did they accomplish their price stabilization?—No, they did not. Prices have gone up. When they decided on attempting price stabilization, prices were considerably lower than they are now; and they have been, on the whole, going up since that decision was taken. They have been going up pretty steadily since July, 1923. According to the figures of the Federal Reserve Board, wholesale prices in England went up from 164 in August, 1923, to 181 in April of this year. There have been slight reductions since. The Statist index numbers went up from 146.8 in July, 1923, to 163.8 in February, 1924. Then there was a slight fall, but they have been going up since July last; and at the end of October the figure was 171.9. So the increase is from 146.8 to 171.9.

712. And your judgment is that that is a danger sign as regards the probabilities of sterling returning to parity in the near future?—Certainly, combined with the fact that they are not carrying out the report of the Cunliffe Committee, and that the present Prime Minister, in two public expressions that I am also putting in extracts of [Appendix 10 (d)], has stated that he is against further deflation and is in favour of "non-deflation." That is the expression he used.

713. Does "non-deflation" mean stabilization?—I take it it means stabilization.

714. Does that mean stabilization of the gold value of the pound or stabilization of the purchasing power of the pound?—The stabilization of the purchasing power of gold and the prices of commodities. It would appear that the settlement of the American debt was agreed to somewhat hastily, because of Mr. Baldwin's belief in the possibility of permanently depreciating the value of gold by means of the price stabilization plan. [See Appendix 10 (g).]

714A. The price level in Great Britain is relatively much higher as compared with the United States at the present time than it would be expected to be from the discount of the pound in terms of dollars, is it not?—It is so. In the periods mentioned, that is, from July, 1923, to October this year, the increase is only 53 points in the U.S.A. according to the Bradstreet index number.

715. The latest figure that we have for the Bureau of Labour Statistics index number in the United States is that of September, 149. If we assume that the present index number in the United States is, roughly speaking, 180, counting 1913 as 100, and if we assume that the pound sterling at the present time is at a discount in terms of gold, of roughly speaking 4 per cent, that would mean that on a comparable basis the index number of Great Britain ought to be about 4 per cent. higher than 150, or about 156?—If they were comparable.

716. What is the index number of Great Britain for September?—For September it is 165.2.
717. In other words, it is about ten points higher than it should be to bring the price level into equilibrium with the exchange rate?—I take it that is so.

718. And if you would stabilize on that price level it would mean that the exchange rate would have to decline materially?—Yes.

719. You think that that is probable; that they will try to stabilize for some time by this process of "non-fiat" at approximately the present price level?—Well, I am not so sure that they have not in mind a slightly higher price level. The fiduciary circulation is now very nearly up to the 1922 level, and very considerably above the 1923 level. There will be no reduction this year in the maximum.

720. If they stabilize at a slightly higher price level that would mean a still further fall in the New York-London exchange rate?—Yes, certainly.

721. And a still greater premium on gold?—Yes.

722. And it would mean, if South Africa should remain where she is, a substantial discount on sterling exchange?—That is so.

723. You stated in your previous remarks that the restoration of the gold standard would undoubtedly aggravate the burden of taxation?—I should prefer putting that "would probably" aggravate the burden of taxation.

724. Is it not true that tax rates, once levied in terms of paper money, are likely to persist for some time; in other words, that there is likely to be here, as in the case of wages, a very decided lag before those rates would be reduced after South Africa had returned to a gold basis?—Yes.

725. Would not the Government benefit during this period of lag by receiving higher taxes; in other words, by collecting practically the same number of sovereigns from the public as it had previously been collecting in depreciated paper pounds?—The Government would get not only more money, but they would compel their taxpayer to sell more goods in order to provide that money. The taxpayer would be more heavily burdened.

726. And the Government would temporarily benefit?—Yes.

727. The Government has a considerable indebtedness, has it not, payable in pounds and not in gold?—That is so.

728. In meeting the service of its debt does not the Government therefore benefit while the currency is depreciated, and would it not suffer if the currency were brought back to par?—Yes. The country will have to pay more, measured in goods, for the service of that debt when the pound comes to par. The debt at present is payable in an inferior currency. When you improve it, naturally the burden is increased.

729. In other words, while the Government might gain during the period of lag by receiving as many sovereigns as it is now receiving in paper pounds in taxes, it would suffer through the fact that it would be compelled to pay in the service of this debt, and presumably in its salaries and wages, practically the same number of sovereigns that it now is compelled to pay in paper pounds?—Yes.

730. Viewing the question broadly, do you think the Government would gain or lose, from the standpoint of its own fiscal conditions, by the restoration of the gold standard?—The restoration of the gold standard would improve conditions as far as this country is concerned—it would tend to increase prosperity, and that should be helpful to the Government. Unfortunately, the Government has, during a period of inflation, over-staffed the services and increased expenditure beyond what was required for the country. They would have to economize, and will have to do so in any case. But, generally, and in the long run, the Government would be better off. The Government depends, of course, on the prosperity of the people.

731. One argument that is strongly advanced by those who favour tying up the South African currency with sterling is the claim that South Africa must borrow heavily from time to time, and that she is practically compelled to borrow in London, for London is the only market which is familiar with South African
conditions, and is the market which would give her the best terms. It is urged that she would suffer in borrowing in London if she had to borrow in sterling, as she would, and then convert that sterling into South African pounds at a discount. For example, if the discount were 5 per cent., she would receive for every £100 sterling she obtained as the proceeds of her loan in London only £95 South African, and it is said that that discount would be a real loss, particularly in view of the fact that sterling will probably return to a gold basis during the life of most loans that would be made in the near future; so that South Africa would be compelled to pay back probably £100 South African in paying off the loans, whereas she would receive only £95 South African when the loan was made. Isn't that a serious objection to going back to the gold standard?—I admit that all borrowers in London when British sterling is depreciated will suffer if they have to repay their loans after British sterling has appreciated to parity with gold, but linking our currency to British sterling would not improve our position as borrowers in London. I take it that the proceeds of the loans we contract in London are brought out to South Africa not in coin or Bradburys but in goods, and that we get the same quantity of goods no matter how great the disparity between the two currencies may be. Our pound is at a discount of say 5 per cent. as compared with the English pound, simply because ninety-five South African pounds buy the same quantity of goods as one hundred English pounds. The fact that the South African pound is worth 5 per cent. more than the English pound is not to our disadvantage as borrowers in London. We are in exactly the same position as Canada or any other country would be in if they borrowed in London when British sterling was depreciated in terms of goods and gold. The appreciation of British sterling to the level of gold would add to the burden of the debt in any case. Tying up with sterling would not help us any more than it would help Canada. We should be no better off as borrowers if our currency was tied up with sterling. The addition to the burden of our debt in that case would be precisely the same as it would be were we on the gold standard and England on a paper standard when the money was borrowed. If there is a reasonable certainty that British sterling will be restored to parity with gold, it is obviously unwise to borrow in London when sterling is depreciated in terms of goods and gold. For example: Supposing we borrow in London £5,000,000 when commodity prices are 80 per cent. above the pre-war level (which was the case in October, taking the average of the Statist, the Economist, and the Times index numbers) and we exchange the £5,000,000 for 300,000 tons of commodities, which we bring out to South Africa. Now, if the gold standard has been restored and prices have fallen to say 20 per cent. above the pre-war level when the loan matures, we shall have to provide and sell not 500,000 tons but 750,000 tons of commodities in order to repay the £5,000,000. That is, the restoration of the gold standard in England, and the consequent appreciation of sterling in terms of goods, will have added 50 per cent. to the burden of our debt. Either borrowers do not realize this or else they do not believe that sterling will ever be restored to the pre-war gold standard.

732. Here is another factor in the case that I would like to ask you about. If there is a prospect that pounds sterling are going to advance in value in terms of goods and in terms of gold, that is, that the value of the pound is going up, is there any tendency for people speculating in securities and speculating in exchange to try to take advantage of that prospect of advance by buying sterling exchange and buying sterling securities? Do you think at the present time, for example, that there are people in the United States or other countries who are buying sterling exchange and sterling securities of one sort and another payable in sterling, who otherwise would not buy them but for the fact that they expect sterling to go back to par, with the result that they will gain not only their interest, but also an increase in principal?—That is so. No doubt there has been a feeling recently that sterling might get back to par rather quickly.
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733. If that is true, that would cause a considerable influx of funds into the English market?—It might.

734. To the extent that that is true?—Yes.

735. On the other hand, people who are contemplating borrowing, foreign countries that are contemplating borrowing, would be more hesitant, would they not, about borrowing in any way if they thought that the gold value of sterling was going to advance during the life of the loan than they would be if they thought that sterling was going to remain where it is?—That is so.

736. In other words, this would cause an influx of capital into Great Britain, an increased supply of loanable funds in Great Britain, and a decreased demand for the loanable funds that are there. How would that affect the interest rate on British loans as compared with loans made in other countries?—Well, I take it that it would tend to reduce the interest rate.

737. The tendency would be to reduce the interest rate?—Yes, certainly.

738. So that persons borrowing in the British market under those circumstances would nominally be paying a lower interest than in other markets, but, if the prospects that people have been speculating on were realized, they would be compelled to compensate to a great extent for that gain in interest by the necessity of paying back an appreciated pound when they borrowed a depreciated pound?—Yes.

739. If South Africa returned to the gold standard independently of Great Britain, would the discount in South African money of sterling tend to the export of capital from South Africa, and retard the flow of foreign capital to South Africa; or, on the other hand, would the return to the gold standard attract capital to South Africa?—Unquestionably, the restoration of the gold standard will tend to attract capital. A sound currency of itself, however, may not be enough. At the moment the high income tax and super income tax and the excessive death and succession duties are also important factors in driving away and in keeping away capital from South Africa. Other countries, such as the great South American States, are attracting capital from Europe and the United States. They are not on the gold standard, but the taxation of capital is not so oppressive in those countries as in South Africa.

740. The point has frequently been made that at the time of the collapse of prices in 1920, there was a great outflow of capital from South Africa; and it has been pointed out that as part of the evidence of this outflow of capital there was about that time a very great contraction in bank deposits in this country and in bank assets. Is that experience of 1920, in your judgment, evidence that would point to the probability of a similar outflow taking place if South Africa should resume specie payments now?—Well, I am rather doubtful as to whether there was much in the way of an outflow of capital in 1920. I don't know of any evidence on that point. What did happen then was that capitalists were rather frightened by the taxation policy that was pursued. I know of a specific instance of people who had intended investing capital here refusing to do so when they found out what the taxation was. There was a very substantial increase in the taxation of capital in 1920.

741. I have a statement here that in March 1920 "inside the Union" deposits of the banks amounted to £95,000,000 sterling. At the end of September, 1924, they amounted to only £56,000,000. Is that evidence of an outflow of capital?—No, the position is this, as I interpret it: Deposits may mean money lent by the banks themselves: oftener than not a loan involves a deposit. Prices were going up in March, 1920. There was a feeling that high prices were going to continue; and the banks, or some of them, were lending money lavishly to people who wanted to buy farms and speculate in various ways. These loans inflated the deposits. When the slump came naturally the banks started calling in loans and curtailing borrowing as much as possible. That reduced deposits. Later on there was an enormous number of bankruptcies as a result of that lavish lending policy of 1920.
742. If bank deposits in a country decline in substantial proportions from one year to another, and if at the same time the price level declines in practically the same or nearly the same proportion, would you say that the decline in bank deposits represented an outflow or decrease in the capital in the country?—There is no doubt that it represented a decrease in capital. I don't think that there was any flow of capital out of the country.

743. I notice that the gold price level in the United States declined on the average from 1920 to 1921, 35 per cent. If that is true then 65 dollars in the United States in 1921 were the equivalent of 100 dollars in 1920; and if you were measuring the capital or the goods of the country in terms of dollars you would need to reduce the dollar value one-third to represent the same value in goods?—That's right.

744. If your deposits in South Africa declined very substantially at a time when the purchasing power of the monetary unit was rising very decidedly, that probably meant largely an increase in the length of the measuring rod by which you were measuring your capital but no material decrease in the capital?—That is so.

745. What was the decline? I notice, by referring to the index number of wholesale prices in South Africa, that there was a decline from a high figure of 2,542 in July, 1920 to 1,511 in October, 1921: a little over a year. That is a decline, roughly speaking, of two-fifths, or 40 per cent., is it not?—Yes.

746. So if you were measuring the capital of the country in 1921 in terms of the 1921 pound—say the pound of October, 1921—and if you had the same amount of capital that you had in 1920, you would expect to have a figure only three-fifths as large?—That is right.

747. Do you know if this alleged outflow of capital took place in other countries in 1920 and 1921 besides South Africa?—Of course it did. The fall in prices was very general.

748. Except in those countries where the circulation of paper money was being substantially inflated at that time?—Prices fell in countries that were trying to keep their currency in hand.

749. If a contraction in bank deposits such as you had in South Africa in 1920 took place at the same time in a great many other countries, in fact in a very substantial proportion of the more advanced countries in the world, and if this signified an outflow of capital from all those countries, where was this capital going?—That's it—where was it going to? If it was going out it must have increased the capital in some other country. But the fact is there was no outflow of capital.

750. You don't know to what countries this capital was going?—No, and I don't think that the people who suggested that it was going out know either. They were guessing.

751. Do you know of any specific cases of capital flowing out of South Africa because of the high sterling value of the South African pound?—When the South African pound was at a discount?

752. Yes. When its value in terms of sterling was highest?—That would be from February to July, 1920. I don't know of any specific cases. I know that people who had money to pay in Europe did try to pay at that time.

753. But you don't know of any permanent transfers of capital at that time and for that reason?—No.

754. Do you know of any capital that would otherwise have come into this country and that has failed to come in because at certain times the value of the South African pound was considerably greater than the value of the sterling, in terms of gold?—No, I don't.

755. I take it from what you state that it is your judgment that the stabilization of the South African pound in terms of gold would attract capital here?—Certainly.
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756. Do you know of any capital that would definitely come in if the South African pound were stabilized on a gold basis?—I don't know of any specific case. But I understand that when it became clear that the United States were definitely on the gold standard a considerable amount of capital was transferred there from countries where there was uncertainty as to what was going to be the value of their currencies.

757. I think there is no question of that. There was a good deal of German capital coming into the United States, also French and Austrian capital, despite the fact that the interest rates were much lower in the United States of America than in other countries. Many people put their money in America because the United States had a gold standard currency and they thought that the United States was therefore a safe place to put it?—The same thing will happen here when it is clear that we are not going to play with our currency any more, and that we are definitely going back to gold. I think a great many people would transfer their money here, particularly if there was any doubt as to what they were going to do in England as the outcome, say, of discussions in Parliament of managed currency plans.

758. 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?—The effect would be to diminish the uncertainty as to the relative values of the two currencies.

759. I would like to follow that up a little farther: To what extent do you think the exchange between South Africa and London would fluctuate over and above the extent to which it fluctuates now?—You would have one currency on a stable basis. There would be no necessity for provision to be made for fluctuations in that currency as against gold or as against the dollar. It would have a known value in the world, as the dollar is the currency of a very large portion of the world's population; if we put our currency on the gold basis its value will be fixed in relation to the dollar. Persons doing business with South Africa now find it difficult to arrive at the value of the South African pound. They will have a very substantial help in arriving at its value if it is on the gold basis, the same as the dollar.

760. You can always arrive at the gold value of the South African pound, can you not, if you know the price here at which you can buy telegraphic transfers on London and the New York-London exchange rate?—Yes, but there is greater uncertainty if we are not on a gold basis.

761. You mean that uncertainty is an element in this price?—If we restored the gold standard the uncertainty would disappear as far as one end is concerned. The uncertainty would be at the other end—as regards sterling. There would be no uncertainty here as regards the South African pound. We would benefit; we would not have to pay any insurance on account of the possibility of fluctuation in our currency as compared with gold.

762. An exchange rate is the price of one currency in terms of another currency?—Yes, but they allow in fixing the rate for the possibility of fluctuations. If one currency is liable to fluctuations as compared with gold and the other is not, evidently there is no necessity for insuring the latter on account of fluctuations as against gold.

763. How large an element of uncertainty is there in buying a cable transfer where the money is paid and received on the same day?—I don't suppose there is anything very much; but they fix these cable transfers for fairly long periods here.

764. They do here apparently, but a telegraphic transfer rate here on London is the price in South African pounds of the right to draw in pounds sterling at once?—Yes.

765. And that price would tend to go up and down in accordance with changes in the value of sterling in England, or in accordance with changes in the value of the South African pound here. It is the expression of the value of one thing in terms of the value of another thing?—Yes.
766. The exchange rate in London on New York expresses the value of a pound sterling in terms of dollars? Yes.
767. That would go up or down according to changes in the value of sterling in London or in the value of gold in New York? Yes.
768. But the value of gold in New York is changing, is it not? It isn't stable?—It is changing, but it is more stable than any paper currency.
769. You think it is more stable than paper currency. I have seen some statements to the effect that sterling had been more stable in its purchasing power than gold in recent years. Do you think there is anything in that?—No, I don't. I have Irving Fisher's index figures that came in to-day. The average of 1923 was 158. This year the index number went down to 143 in June, and was highest in the third week of November: 154.8. That is, the fluctuations have been comparatively slight.
770. That is Fisher's index number which covers less commodities than does that of the Bureau of Labour Statistics?—Well, taking the Bradstreet index numbers for 1924, the difference between the minimum and the maximum figures is nearly the same as in Irving Fisher's table. A comparison of the Bradstreet and the Statist index numbers for 1923 and 1924 up to the end of October last shows a considerably greater difference between the minimum and the maximum numbers in England with paper money than in the United States of America with gold.
771. I have been in a number of countries that have had highly unstable exchanges. Some years ago I lived for a time in the Philippines when they were on the silver standard, and their principal trade was with gold standard countries. I spent some time in the Straits Settlements before they stabilized with gold, and their principal trade was also with gold standard countries. In practically all of those countries I observed there existed the practice of making forward contracts in exchange. This enabled the merchants to eliminate a considerable part of the risks which they would otherwise have incurred by reason of widely fluctuating exchanges?—That's right.
772. An exporter who knew he was going to have a supply of goods to export in the future would go to his bank and say he was going to ship such and such a supply of goods and would have such and such bills for delivery at a certain time, and he would ask the bank to quote him a rate for such bills to be delivered in the future. The bank would quote a forward rate. The exporter would, therefore, know exactly what to count upon. The importer, knowing he was going to bring in goods in the future, and that he would have payments to make, would likewise ask the bank to quote a forward rate. The forward rate quoted by the bank to the exporter for the purchase of his bills would be offset more or less by the forward rate quoted to the importer for the sale of drafts and cable transfers. In other words, the bank would hedge, making a small profit upon the transactions. It was the usual practice for the best banks to cover their forward purchases by forward sales, and vice versa?—Yes.
773. To what extent do the merchants here make forward contracts with the banks in order to eliminate the possible losses from fluctuating exchange?—I am not aware that they do it. I have had experience similar to yours. I was in Turkey, in the Ottoman Bank. We dealt with Persia, which was on a silver basis. To safeguard ourselves and our customers we bought and sold silver for forward delivery.
774. Do you know any reason why the banks here should not adopt that policy and make forward operations with exporters and importers, in case South Africa should stabilize with gold and England should not return to the gold basis in case there should be considerable fluctuations in exchange as a result of that fact?—It seems to me that it would be a very sound policy. Certainly in the Bagdad branch of the Ottoman Bank, which had business mainly with Persia, we found forward rates based on the forward price of silver distinctly advantageous. I believe the
silver market in “futures” was originated by the smelters in London to enable them to fix a price for the silver ores which they purchased.

775. They know just what to count upon in advance?—Yes. I believe that in silver using countries, such as China, banks fix the exchange rates by buying and selling silver for forward delivery.

776. To any merchant who wished to take the pains to make forward contracts in exchange, either exporter or importer, there would be the probability of the elimination of a great many of the evils that are claimed would result from an unstable exchange?—Certainly.

777. You think the banks ought to provide facilities for that purpose?—Yes.

778. Would you go so far as to say they ought to have a forward price for buying sterling and a forward price for selling sterling, which they could quote on the market daily?—Yes, if it can possibly be arranged on lines similar to those between gold and silver using countries. I take it that arrangement came into operation in connexion with China originally.

779. I believe that operation has been common for many years in a great many countries having unstable exchanges?—It seems that the adoption of that system would help the position very much supposing we went back to gold.

780. It could be assumed that Great Britain in the course of the next twelve months would return to a gold basis, should South Africa take any present steps in contemplation of her simultaneously resuming a gold basis?—If it were certain that both countries will restore the gold standard within a year, I do not think the fact that the resumption takes place at different dates and not simultaneously will make any material difference. Up to the present, however, there is no evidence that Great Britain intends to return to the gold standard within the next twelve months. As I have already pointed out, the evidence is all the other way.

781. If South Africa should return to the gold basis on 1st July, 1925, independently of Great Britain, what special measures, if any, should be taken to enable her to maintain gold payments?—Having regard to the present purchasing power of the South African pound, it does not appear to me that any special measures are called for.

782. In reference to that question, and in reference to what you have just said, I would like to know what, according to your judgment, should be done with reference to the gold certificates in case South Africa returns to the gold basis on 1st July of next year? Don’t they cease to have any utility?—They were created because something was wanted that could not be exported, that was not salable in other countries, something representing the full value of gold in this country but which could not be sold in other countries. Now if we are going back to convertibility, it appears that the raison d’être for gold certificates disappears.

783. As I understand it, the gold certificates are backed £1 for £1 with gold, but convertibility has been temporarily suspended. If you return to the gold standard on 1st July next, convertibility will naturally have to be resumed?—Yes.

784. Does that mean that the gold certificates then will cease to circulate and have their legal tender quality removed automatically, or will special legislative action be necessary in order to retire them and to prevent their issue in the future?—I take it the Reserve Bank will want them retired because the Reserve Bank will not want them used in place of other paper.

785. It would cut into the Reserve Bank’s profit?—Certainly.

786. I don’t see myself that gold certificates answer any purpose once there is convertibility and no intention of going back to inconvertible paper money.

787. I understand that there is only something like £400 of these gold certificates now in the hands of the public, and that all the rest are in the hands of the banks. Am I correct in interpreting your statement as favouring the prompt retirement of all these.
gold certificates and their cancellation together with the removal of the privilege of further issuing them in case the country returns to convertibility—I agree. I think Chapter I of the Currency and Banking Act of 1920 should be repealed.

787. What functions should the Reserve Bank perform in this connexion?—I am a little doubtful as to whether or not the Reserve Bank can be of much use in connexion with the restoration of the gold standard. We want a self-regulating currency, not a managed currency. Having regard to the extent to which the country returns to gold production, I hardly think that it is an exaggeration to state that reserve banks are institutions which are fundamentally inimical to the best interests of South Africa. The Reserve Bank is a piece of machinery expressly designed to advance and bolster the managed money movement, whereby the use of gold for monetary purposes may be reduced to a minimum. If gold is not used as money, or is only used to a very limited extent as money—the extent contemplated by the Genoa Conference, for instance—its value in other commodities may fall to half, or even a third, of what it was in pre-war days, with the result that the working of practically all the gold mines in British South Africa would be rendered unprofitable. It was by means of reserve banks that the Genoa Conference, which met in April, 1922, hoped to bring about an international agreement which should have the effect of preventing an increase in the then depreciated purchasing power of gold. The fact is, reserve banks here and elsewhere have been brought into existence for the specific purpose of depressing gold or keeping it depreciated by economizing its use as money. That appears to me to have been the actual result of the creation of the Federal Reserve Banks in the United States of America. Such a policy may, or may not, be sound and desirable for countries whose people and whose revenues are not dependent on gold production, but obviously it is a wholly suicidal policy for a country so largely dependent on gold production as South Africa. Hitherto the activities of the South African Reserve Bank have been in the direction of retarding the restoration of the gold standard. Judging by what Mr. Burden (then Minister of Finance) said in the House of Assembly on 21st March, 1923, the probabilities are that the restoration of the gold standard in South Africa would have taken place at the end of June last year had it not been for the action of the Board of the Reserve Bank. According to Mr. Burden, the directors of the Reserve Bank were exclusively and entirely responsible for the Currency and Banking Act Amendment Act of 1923, which saddled South Africa with an inconvertible paper money for a further period of two years; and this was done at a time when the South African pound was practically on a parity with gold. [See Memorandum on the Currency and Banking Act Amendment Bill, 1923, attached—Appendix 10 (f).] It has been and is being constantly asserted in Parliament and out of Parliament that the creation of the Reserve Bank and the currency and financial policy pursued at the beginning of 1920 saved South Africa from disaster. It is argued that the Government and Parliament were forced to do what they did in order to prevent the country being drained of its gold. General Smuts, speaking at Capetown on 13th April, 1923, said: "You know what the position was three years ago. With the gold premium then (first quarter of 1920) existing our gold was running away like water, and the two big banks in this country came to the Government and said: 'Unless an end is put to this, unless this is stopped, it will be impossible for us to go on, and we shall have to close up.' Would not this country have been in a fine state if the banks had closed up?"

Now, why was the country being drained of its gold? The facts prove conclusively that there is only one answer: the country 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. When the Great
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War broke out the total amount of paper money in circulation in South Africa was £2,150,000. In the first three years of the war the banks added £2,070,000 to the paper money circulation of the country, but in the seven months ended 30th April, 1920, the note circulation of South Africa was increased by no less an amount than £2,566,000. An additional supply of paper money, equal approximately to £1 per head of the white population of South Africa, was issued in the first four months of 1920. Clearly the right way to prevent gold leaving the country at the beginning of 1920 was to compel the banks to put their own houses in order, stop the extravagant issue of paper money, and gradually reduce the excessive circulation of notes until parity with gold was reached. 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 the price of gold, and adopted a policy aiming at economizing the use of gold. That is, they encouraged the bankers to continue in their evil ways and penalized the gold mining industry and the rest of South Africa for the sins of the bankers. The danger of losing all our gold in the event of the restoration of the gold standard was one of the hobgoblins with which in April, 1920, Mr. (now Sir) Henry Strakosch led astray a majority of the members of the House of Assembly Select Committee on embargo on export of specie. He then predicted that, in the United States of America, where the gold standard was restored on 26th June, 1919, the Government would be compelled to reimpose the war-time embargo on the export of gold [see Appendix 10 (h)]. Events since have proved the fallacious character of that prediction. I believe that a careful examination of all the facts by competent authority would prove that the banking and currency policy favoured by the Government and Parliament in the early months of 1920 did infinitely more harm than good. It aggravated the inflationary movement which began to make itself seriously felt in South Africa in the last quarter of 1919. It led people to believe that the high prices which then existed had not been caused by the over-issue of paper money by the banks, and that in all probability 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 with wholly disastrous consequences when the day of reckoning came. Indeed, the policy pursued in the first half of 1920 led, later on, to a greater number of bankruptcies amongst our farmers and commercial people than had ever happened in any similar previous period in the whole history of South Africa. Moreover, that policy has left us with a burden of taxation heavier than that of any other European communities in the world. Under these circumstances, it is not to be wondered at that South Africa is not attracting either immigrants or capital, and I feel convinced that it is safe to prophesy that South Africa is not likely to attract either immigrants or capital until there is a complete reversal of the currency and taxation policies inaugurated at the beginning of 1920.

788. What suggestions have you to make in connexion with what you have said concerning the Reserve Bank in the direction of making this bank more useful to South Africa? If you think that the Reserve Bank should not be continued, we should like to have your suggestion as to what substitutes should be provided for it?—Well, I haven't given careful consideration to that point. I have looked at the Reserve Bank rather as a bank created expressly for the purpose of economizing gold, and in that sense I have looked upon it as rather inimical to our interests.

789. As gold producers?—As gold producers. I have no doubt that in a country like the United States there was an advantage, particularly in time of crises, in having a central bank where the reserves were centralized. But even in the United States it did have the effect of depreciating the value of gold money equal

790. The people of the United States considered that any economies they realized in such an expensive article as gold were net gain to the country, and that in this way the Federal
Reserve Bank was of great value to them?—But, looking at it from my point of view as a gold producer, anything that diminishes the demand for gold is disadvantageous. Gold is the biggest thing we produce.

791. As the greatest producer of gold in the world, naturally South Africa wishes to have as large a demand as possible for her product. On the other hand, the amount of gold that South Africa would use in its own circulation would at best be very small for some time as compared with the rest of the world. And South Africa is not only a gold producer, but is also a country that has a Government that is levying fairly high taxes to carry on public services. It is in great need of capital for its development, and from the standpoint of a citizen of South Africa, and one who is desirous of seeing capital coming in and taxes reduced, if you could so economize the use of gold in South Africa as to dispense with a few million sovereigns in actual circulation and in the banks, and if in doing so you could maintain a currency just as stable and just as sound for all practical purposes as otherwise, and could send out the amount of gold economized and bring in that amount of capital in other forms, would you not consider it a good thing for South Africa to do so?—I doubt it; and in any case it would be setting a bad example.

792. Do you suppose that South Africa's example is going to count very much if it flies in the face of world economy and efficiency in the use of gold?—It seems to me that as gold producers we should set the best example possible in our own interest. The gold standard came into existence at the beginning of the last century. At first there was only England using the gold standard. The bulk of the world then were using silver, but gradually gold encroached on it. If England had adopted that view of economizing gold, and not using it, gold would not have got into general use.

793. Have you any idea how much gold would circulate in South Africa under normal conditions now?—No, I haven't any idea. Of course, once gold got into circulation a good deal of it would disappear into Portuguese Territory, Rhodesia, and Central Africa.

794. Suppose we take an arbitrary illustration. If by means of a reserve bank and by reasonable economies in the use of gold, assume you could get along in this country with, say, £5,000,000 less than you otherwise would need, and at the same time maintain your currency on an equally good basis, then you would be saving the amount represented by the interest on that money every year?—Say £300,000.

795. Do you think that South Africa's example in using an uneconomical currency in order to help gold would be worth £300,000 a year to South Africa as a gold producer?—That is the argument in favour of a managed currency with or without gold. The main reason against plans for economizing gold is that we cannot trust the managers. You cannot find managers able enough, intelligent enough, and honest enough to keep a managed currency on safe and sound lines. It seems to me that there is very little choice between going the whole hog one way or the other. Immediately you start trying to substitute paper for gold, the politician comes in with some amount of control, and I want to eliminate the control of the politician entirely. I want the currency to be absolutely self-regulating. If the country wants paper, it can have it; if it does not, it can have gold. I don't want the Reserve Bank or anybody to be there to induce the public to prefer paper.

796. A country cannot have paper money unless it provides the machinery whereby the public can obtain the paper, if it wishes it?—Yes.

797. Is there not a very big difference between a managed currency which adopts some other basis than gold as the unit and tries to increase and decrease the supply of currency by methods of management in such a way as to stabilize prices and a gold standard in which the effort is made to economize the expensive
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item of gold as much as possible?—I admit that there is a difference. But there is management in both; only there is a greater degree of management in one, that is all.

798. In Section 15 of the Act, No. 31 of 1920, there is a statement to this effect: "The bank (referring to the Reserve Bank) shall have the sole right to issue bank-notes in the Union for a period of 25 years from the commencement of this Act." In Section 34 bank-notes are defined as "any bill, draft or note issued by any bank for payment of money to bearer on demand, or entitling or being intended to entitle the holder without endorsement or without any further endorsement than may exist thereon at the time of issue, to the payment of any sum of money on demand, whether the same shall be so expressed or not." Now that is the definition of a bank-note. The Reserve Bank has the sole right of issuing bank-notes. There is no provision in this Act that I can see, and so far as I know no provision anywhere in South African legislation, that prevents the Government of the Union of South Africa from issuing Government notes at any time. This is the sole right of issuing bank-notes that is granted to the bank, but not as in some other countries the sole right of issuing notes. Do you think there is any legislation called for at the present time which will practically oblige the Government not to issue notes that can circulate as money during the period of the charter of this bank?—I did not realize that there was a possibility that the Government could issue notes. I was under the impression that the Government had transferred its note-issuing powers to the Reserve Bank.

799. According to this legislation, the Government has transferred no powers to the bank in the matter of note issue except that it has given the bank the exclusive right of issuing bank-notes?—I should be against giving the Government the power of issuing notes.

800. The Government apparently has it?—The Government can always take it even if they have not got it.

801. If the Government should make a definite contract with the bank, giving it the exclusive right of issuing notes that would circulate as money during the life of the bank's charter, would that not tie up the Government in this respect?—I doubt if Parliament would now agree to tie itself. If they have not already done so, I hardly think that they would be prepared now to reopen the question.

802. You recognize the fact that this is a grant to the bank of the exclusive right of issuing bank-notes and not the exclusive right of issuing paper to circulate as money?—I was under the impression that the intention was at the time that there should be no power of issue by the Government once this bank had been created.

803. Section 32 of the Reserve Bank Act provides that "no person may 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 coined 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 both such fine and imprisonment." I would like to ask you two questions with reference to that provision: First, to what extent has that restriction been effective; and, secondly, to continue it in the future?—I should say that it has not been effective, and I certainly think that it is undesirable to continue it.

804. Will you develop those points a little?—What section 32 means is this: The Government issues or authorizes the issue of inconvertible paper money, which it says is worth so much gold, and it further says that if any one tries to possess contrary he will be punished. In a word, it provides punishment for anybody exposing the swindle: that is what it really amounts to.
805. It has had some effect, has it not?—It may have had some effect.

806. Have there been prosecutions?—Quite a number of people have been fined, but the penalty has had no effect in preventing the disparity between the paper pound and the gold pound. When paper money is over-issued its value in gold cannot be kept up by penalties, however severe.

807. You think it has been evaded when it has been to the interest of the people to do so?—Yes. It is an immoral provision designed to prevent the public discovering that they are being robbed. It is put in the law to cover up a wrong. They don't want it to be proved that the paper money has depreciated. It seems to me that it is to the interests of the community that it should know as soon as possible if the paper money has depreciated.

808. There are two factors there, are there not? One is the question of the value of the paper in terms of gold internally, and the other is the question of the value of gold internally as compared with the value of gold in the world's markets?—Yes.

809. If you prohibit the convertibility of gold internally and prohibit the sale of gold internally at a premium, you break down any method of testing the value of paper in terms of gold, and if you prohibit the exportation of gold (except under restrictions), you prevent gold in the internal market from seeking the level of gold in the external market and break down that nexus. You have done both in this country?—Yes. In this country we have committed pretty well all the sins we could commit over this currency business.

810. The gold embargo is entirely removed?—That is so.

811. But this provision still remains?—Yes.

812. You would recommend its discontinuance?—I certainly would recommend the elimination of a provision of that sort.

WEDNESDAY, 14TH DECEMBER, 1924.

MR. CHARLES HEWITT (examined).

813. (Professor Kemmerer.) What is your position?—I am a public accountant in practice in Johannesburg.

814. You have devoted some time to the study of currency questions?—I have been studying them for many years.

815. Have you ever had any direct business interest in connexion with currency and banking matters, or have you approached the questions primarily as an accountant and student?—As an accountant and student. But I claim that as an accountant I have exceptional opportunities in the course of my daily work of observing economic tendencies which people in other professions have not got to the same extent.

816. Are you in favour of South Africa returning to the effective gold standard on 1st July next without any restrictions in accordance with the legislation now existing on the statute book?—Yes, I am.

817. Will you kindly give us your reasons?—Well, I claim that primarily we ought never to have departed from the gold standard. Our departure from the gold standard has taken place without our consent and without the knowledge of the people. Had it been put to us at the time, before the departure took place, I am quite satisfied that the good sense of the community would have been against it. The banks, to my mind, made this departure without consulting us. At the time they did so, they did a very great injustice to their depositors in that these people had deposited gold money, which the banks, without consulting them, had converted to a paper liability. I claim that we are the largest producers of gold in the world and are vitally interested in the extension of the use of gold for currency and for other purposes. Although I am conscious of the extent to which gold is used for purposes other than currency, such as the industrial arts and the
fine arts, I consider that gold derives its value largely because of its use as currency, and that unless gold currency is restored there is a very poor look-out for the mines, and, therefore, for this country. In general terms, I say that there is only one kind of currency, and that is gold currency. It is the best currency. And I say, finally, that we are in the position to return to gold almost at once. We are not like other countries who would like to get back to gold but economically find it impossible at the moment. We can get back to gold. I see no reason why we should not.

818. Do you believe that South Africa should return to the gold basis then next July regardless of what action may be taken by Great Britain and independently of Great Britain?—I do. I claim that South Africa is an independent economic unit for purposes of international trade. We should have no currency identity with England. It was the failure of the banks to recognize that fact that has got us on to a paper basis. They drifted.

819. Have the banks made money as a result of the suspension of specie payments?—No, I think on the balance they lost money; but for a time it looked as though they were making fabulous sums.

820. Has it not been an advantage to the banks to be able to issue notes which are not payable in gold on demand and to receive in return the obligations of individuals that bear interest?—Undoubtedly; but I say, in view of the inflation—which was either a cause or an effect of this system of getting on to paper—and the subsequent losses which the banks made, undoubtedly it has not paid the banks. It is almost common cause to-day that the banks were in a very serious position at one time as an effect of this inflation. I say we are distinct and independent economic units for the purpose of foreign trade. Our trade with England is trade with a foreign country. There is no fluidity of capital or labour between the two countries. It has been most unfortunate, in my opinion, that we have had the same unit of currency. Had we been on a currency of dollars and cents like Canada is, I do not think the banks would have drifted blindly into the extraordinary position they find themselves in; but they were utterly unable to conceive of our pound being in any way different from the English pound. I think the policy of accumulating balances overseas is extremely harmful to South Africa. It means that for a considerable time the effort involved in producing these commodities which have been disposed of and which have resulted in these accumulations has been of no benefit to the country.

821. It means that South Africa, a country poor in capital, with fairly high interest rates, is lending capital to Great Britain?—It is an involuntary loan. We would not deliberately lend money, because we are not in a position to.

822. But you are actually lending money?—We are actually lending money, but we cannot afford to. I would like to say at this stage that there is a good deal of reticence about the extent of the bank balances overseas. When the first Select Committee on Public Accounts sat, the question was asked on several occasions, but the bank managers did not disclose the figures. Various figures were mentioned, ranging from 15 to 50 millions; but the figure has never been given.

823. What is the motive which leads banks to keep such large balances in England?—The exports, visible and invisible, must exceed our imports to that extent, and they have not adjusted the exchange rates in a sufficient degree to preserve an equilibrium.

824. The banks have kept the exchange rates fairly fixed despite these balances, and there has not been the automatic adjustment to variations in the value of sterling as measured by the London-New York rate or the British price-level that you would naturally expect to take place. Do you think that these frequent adjustments would take place if you were on a gold basis, or would the banks even be able to keep the exchange fairly stable?—No, not if we had the uncontrolled right to export gold ourselves.

825. There is a belief in many circles that Great Britain is going back to a gold basis very soon, and sterling in terms of dollars has increased very substantially this year—in a year's time.
something like 10 per cent. Apparently there is a common belief in many circles that sterling will continue to advance towards gold parity. Do you suppose that the anticipation of that advance and the speculative gain that would result from the advance if these balances appreciate in value towards gold parity has been a motive in keeping these balances abroad?—I think the banks have always relied on being able to bring argument or pressure to bear on the Government indefinitely to extend the period of inconvertibility. They have succeeded in doing so on two occasions. They have never, as far as I know, until possibly recently, made the slightest effort to get back to gold. When the Bill first became law giving them a definite period of inconvertibility, they drifted on just the same. I consider that until comparatively recently they have adjusted their exchange rates on the assumption that they would be able to bring, from their point of view, logic and argument to bear on the Government to allow them to drift on in a state of currency equality with England.

826. The bigger the balances they have abroad, other things equal, the easier it will be for the country to return to the gold basis, will it not?—Not from the point of view of the banks.

827. From the standpoint of convertibility, the larger the amount of gold you have on hand and the larger liquid funds they have abroad, the easier it would be to prevent any dangerous drain of gold?—I would like to come later to the question of the drain of gold. All I suggest now is, it is the existence and the enormity of those balances which have made the banks unwilling to come back to gold; because immediately a state of convertibility is reached the banks are faced with not a potential but an actual loss representing the difference between the gold and the paper value of those accumulations.

828. Is that an actual loss? After all, the gold unit here would presumably be more valuable than sterling if South Africa should return to a gold basis?—I am speaking now from an auditor’s standpoint. That money in the balance-sheet of a South African company would have to be taken in and translated into South African money.

829. But it is more valuable money?—It is less valuable money. The South African would therefore say he would have to write it down to the extent of the so-called premium.

830. That may be an accounting change, but is it an actual change from the standpoint of purchasing power, which really expresses the value of money?—Not in real value. It has the same value for purposes of importation. It will buy the same commodities overseas. But from the immediate standpoint of the banks in preparing their accounts they have to show a loss, and that is, I presume, one of the reasons for the unwillingness of the banks to get back to gold.

831. The statement has been made several times that the banks have realized considerable losses in the last few years in this country; that there have been a good many business failures of one sort and another, and that there is not in South Africa at the present time a sufficient demand for short-time liquid funds in loans of a thoroughly safe character to justify the banks bringing this money back. It is claimed that the amount of high-grade short-time paper available or demands for short-time loans that are being made is rather small, and that the banks would run a great risk if they would extend their advances very much under present conditions. Therefore it is argued the only safe and sane attitude for the banks to take is to keep these funds in substantial quantities abroad until the market here becomes safer. What do you think is in that claim?—I respectfully suggest that there is a fallacy underlying that, that is the transfer of funds. The man in the street is impressed with the argument, but I think those who go at all deeply into the matter know that they will remain there until they are translated into commodities. There is no such thing as transferring balances. Certain exports are sent overseas; they are realized in London and the money is paid into the bank.
and it is held in British money, currency notes, bills, or something like that, until such time as a South African importer comes along and buys that currency.

832. The banks could bring it back if they wished to adjust their exchange rates in such a way as to encourage an increase of imports, namely, reduce the South African rate for sterling?—That does not bring it back.

833. It would reduce the balances over there, would it not?—That is what I suggest we want. I suggest that there is a fallacy underlying the argument of the banks in saying that they bring their balances out here, and it costs them so much to do so. They do nothing of the kind. They hold them there until somebody buys them and translates them into commodities; and the extent of the rapidity with which they are able to dispose of them depends on the price at which they offer them.

834. Are you in favour of South Africa adopting the policy of a gradual return to the gold standard such as, for example, was suggested for England in 1819 by Ricardo?—Well, when the question was first mooted and when we had a select committee to consider the question of our currency, of getting back to gold, and when we ought to get back, I was certainly in favour of a gradual return. An immediate return would have been a great shock to the community then. But the banks were given a definite term, and as I have already said, they made no effort whatever; and on one occasion since then that term was extended, and still no effort was made. It was only recently, as a result of a change of Government in this country, that the banks have really thought about the possibility of getting back to gold next July. My answer to your question is that I am not in favour of giving any time beyond the 1st of July next. I am convinced that the banks would just do as they have done before and say: 'Well, if it is two years from now we will just ignore the possibility and hope that Providence or somebody will intervene in the meantime.'

835. The difference between the value of the South African pound to-day, as measured by exchange rates, and gold parity is very small, only between three and four per cent., is it not?—Yes, quite small.

836. And seven months' time—if South Africa is to go back—would that seem to you to be an unreasonable length of time with all the warning the people would have?—Not a bit. I should say they should make up their minds at this time if the Government tells them to do so, to keep their rate gradually approaching the dollar exchange, which is the same way of saying getting back to gold; and if there are any fluctuations in English currency in the meantime of depreciation in the meantime, that they should counteract that by adjusting our exchanges correspondingly.

837. If South Africa should say to-day that it will return to a gold basis positively on 1st July next, could the value of the South African pound in terms of gold between now and that time ever be appreciably below the discounted value of the right to draw a sovereign 6½ months hence at the current rate of interest?—The right to draw gold—no.

838. Gradually as you approach that date, the South African pound in the very nature of things would have to advance toward parity?—Yes, certainly.

839. If it tended to drop very much below the discounted value of the right to draw a pound, we will say, 6½ months hence, the public would withdraw South African pounds and hold them as investments?—That is an absolute check if the Government make a definite announcement.

840. So you would not need any control?—From the point of view of the check, that is so; but from the point of view of the dislocating effects which it might have on commerce, of having too evident fluctuations in the meantime, I would suggest that they still keep approaching the dollar parity.

841. Do you believe in this connexion that it would be wise for the Government now to make a definite announcement that it intends to return to a specie basis on 1st July next, or would it be sufficient to do nothing or—?
of itself. Automatically, if no action is taken, the country would return to a gold basis on 1st July. Should a positive announcement be made?—I feel very strongly that a positive announcement should be made.

842. Why?—For one thing, although this law is in the statute book and, unless amended, will remain in force; we have amended this Act so many times.

843. (Mr. Middleton.) Only once?—Yes, we have amended it on one occasion. I think to-day, apart from the fact that this inquiry is sitting, and we hope for good results, the public do not think to-day that we will return to gold on the 1st July next; and there are so many people, probably people in favour of inconvertibility, who are possibly more active and plausible than we are. I suggest they are more specious—and they know little or nothing about economic science. The public do not think to-day that we will go back to gold on the 1st of July. For that reason I think the announcement ought to be made.

844. (Professor Kemmerer.) There is quite a tendency on the part of governmental authorities, I suppose, in every country to like to avoid taking more responsibility than they think is absolutely necessary, because they never know what is going to happen in the near future. Therefore it has been suggested in some circles that if no announcement were made it would be possible, in case the market should take an exceedingly unfavourable turn between now and 1st July, for the Government to extend the time. But if it makes a positive statement now, that possibility will be eliminated. What would you say to that argument?—I cannot conceive of any circumstances which would justify any departure, provided we agree that we ought to get back to gold. I don't know what circumstances could arise which would make it desirable to depart from that position.

845. Suppose England should announce within the next few months that she will definitely return to convertibility on 1st January, 1926. In a case like that would you think it desirable for South Africa to say: "All right, as long as England has positively announced that she will return at that time, and we have stood with her for so long, we will postpone the time until then and return with her"?—I don't frankly think there would be any advantage in it. I think this argument that because England is our best customer we ought to follow her from a currency standpoint is absolutely without weight. If England is coming back in 1926, well and good. But it is only a question of a simple adjustment in exchanges between now and then to continue our business with England without any more difficulty than we are having to-day, because it is the coincidence of the same unit of coinage which is causing this confusion. I think the banks at least should be told—whether the announcement were public or not—definitely that they had to come back to gold, although I don't see much point in it, because it would soon get abroad.

846. What would be the effect of South Africa returning to the gold standard independently of Great Britain on prices in this country and on wages, in your judgment?—As to prices, both of local and imported articles, they would fall to the extent of the improved value of the money.

847. Do you think it is at all possible that under the deflation policy that has been followed here, and under the market conditions in which exchange has been more or less pegged by the banks through their monopoly control, that prices may not have already been deflated to the gold level or even below?—I hardly think so. When prices were rising and there was a good deal of discussion on this very question, not as regards gold, but generally on the policy of the merchant in raising prices, they pleaded the replacement value; but immediately prices began to come down the replacement value was forgotten. They said: "We must clear existing stocks." The importation of the bulk of the commodities is not a monopoly, though it is confined to a comparatively few very large importers. I think, however, there are
sufficient to supply the element of competition, but not sufficient for them to do anything very foolish.

848. In looking over a table which has been referred to in previous testimony, prepared by the League of Nations, and published in its last volume on currency, I find twenty-six countries listed and in the order of the extent to which their present price levels, as measured by index numbers, has declined as compared with the level of 1913. And I find in that table that the country whose index number stands the lowest of all twenty-six countries, in relation to 1913, is South Africa.—That is the greatest decline.

849. The lowest present position as compared with 1913. If you call the price level of 1913, or early 1914, 100, in all these countries, the price level of South Africa to-day stands the lowest of any country in the twenty-six, including the United States, Canada, and other countries which are on a gold basis or near the gold basis. So far as one can judge from these figures, South Africa’s currency deflated, as compared with 1913, more than any other country in that whole list of twenty-six. Now, if that is true, it would seem on the face of it that whether South Africa returns to the gold basis or not, if she is to bring her price level into equilibrium with the gold standard price levels of other countries she is likely to be compelled to raise her prices somewhat because she has overdone the deflation. It is significant in this connexion that the October index number for wholesale prices in South Africa this year is 133 as compared with the July figure of 125.—Yes, well, I think that raises a good many extremely complicated questions such as the extent to which the native factor contributes; the fact that the natives’ requirements are so simple and that his pay has not been affected by the increased prices.

850. Have not the natives’ wages gone up as the cost of living has gone up?—Only negligibly.

851. Has the native suffered then?—Very severely, and it is a very important factor in this whole question.

852. I wish you would develop that point?—The native likes gold money and dislikes paper money. In his primitive way he is a bit of an economist, and not at all a bad one. He has an instinctive knowledge of the fact that gold is better than paper, and he will work better and work harder for gold than for paper. I recall, about five years ago, when gold was in circulation, but when the export was not allowed, doing some professional work in the bushveld in a place called Kameelfontein. It was a very lonely place, and there was not very much to do, and I took a keen interest in what was going on around me. The storekeeper, whose books I was investigating, dealt, as these country storekeepers do, in cattle; and at that time he was purchasing cattle on this basis, that if he could pay out in gold the kaffir was prepared to take £5. 10s., whereas he wanted £7 in paper for the same animal.

853. What was the depreciation?—At that time about 15 per cent. But the native was prepared to give more than that. He has never, to my mind, reconciled himself to paper money, and I don’t think he ever will. To-day there are a good many small employers who try, if they can, to get a little gold for their natives, because they work better for it. When this present legislation came into force, and the Reserve Bank was initiated, and when the gold was in a sense called in, everything possible was done to placate the native and to accustom him to the paper money. He was told two falsehoods: He was told, firstly, that the pound paper was as good as the pound gold, which was untrue. He was told, officially, that there was a pound in the coffers of the Government for every pound note in circulation. That was also untrue. During the times of inflation, when the purchasing power of money diminished very considerably, the native was never compensated for that diminished purchasing power, even when the gold premium was at its highest. I think the utmost on the mines (where the native is best paid) by which his pay was increased was 2d. a shift.
854. The point has been made in that connexion that the native is paid largely in food, housing, etc., and that he has received the same amount here as before, so that he has not lost so far as these items of expense are concerned. His money purchases it is claimed are very small, and it is said that native produce has not gone up appreciably in price. Do you think there is anything in that argument?—Not very much. If you take the native on the mine, he is getting 2s. 4d. a day. His expenses other than wages, including food, amount to, we'll say, 1s. 3d. That includes a proportion of his recruiting costs, repatriation costs, passports, everything else. That means that roughly one-third of his total cost is not wages, but is represented by expenses other than wages. There again of the 1s. 3d. I should think about 7d. would be food. Well, that would be one-sixth of the total. The kaflir is not personally interested in his pass or anything like that. So you have only to add to his wages the cost of his food, and that puts a different complexion on it when you consider the sum. I admit that he gets the same food when prices are highest. On the other hand, as regards those natives who are recruited for the mines, their families, their women and children, are dependent on what they remit from the mines.

855. And they have to buy their food?—They have to buy their food. They have had to suffer great hardships. I remember being in the native territory, in a place called Fort Beaufort, when mealies were very expensive. They went at one time to, I think, 35s. a bag, and the families of most mine employees in the district were in a state of hunger. They didn't get anything extra. I think one of the worst features of our departure from gold—and it is a thing that we don't want to say publicly because we don't want to create any unrest or ill-feeling—has been our treatment of the native, and the way he has taken it. We would never have dreamed of it had they been an organized body of labourers.

856. Has that failure of wages to respond to the increased cost of living been one of the large factors in enabling the mines to profit by the premium on exchange; that is, have they shifted the burden from their own stockholders to the native labourer?—Yes, to some extent; they have given the white man rather more than he was entitled to of the premium, but little or nothing to the native.

857. Because he was unorganized and inarticulate?—Yes, I think so. Then, of course, the degree of benefit the mines enjoyed depends on the grade of the ore. The £2-a-ton ore has doubled the premium on the £1-a-ton ore, but the costs, other things being equal, are just the same, or have increased only in the same degree. If that is true, the native labourer has been compelled to suffer serious hardships in order to permit the poorer grade ores to be worked, or the poorer mines to be worked?—I don't say that was the deliberate aim, but that was the result. It is no good telling the native that the pound is as good as the sovereign; if it were better he would not believe you to-day. He has never liked this paper money, and never will. There is a considerable amount of hoarding going on in the native territories. You have heard, possibly, a great deal about the so-called drain of gold in South Africa. The bulk of that gold, in my opinion, is hoarded in South Africa, and the native, like the Indian, does not regard paper money as good for hoarding; and, of course, he is absolutely right.

859. If South Africa should tie up with sterling, and sterling should go back to par in the next few months, there would be no harm done?—No.

860. If sterling should turn round and begin to decline again in terms of gold, as it did throughout the larger part of 1923, then South Africa could only continue in equilibrium with sterling if she would inflate, is that true?—Or adjust her exchange rates.

861. She could not depreciate the value of her currency without having more currency, could she; in other words, she would have to inflate?—She would have to inflate.
Mr. Charles Hewitt.

862. If she inflated, what effect would that have on the cost of living?—I take it if the English currency depreciated within the next few months, the banks, as the law stands to-day, must adjust their rates to atone for that depreciation.

863. My question is a little different: We are confronted with this fundamental question: Should South Africa return to the gold standard independently of Great Britain on 1st July, 1925? If South Africa should decide not to do so, it is argued very vigorously that her refusal to do so should be for the purpose of maintaining an equilibrium in exchange between South Africa and London; and for that purpose she should tie up with sterling as Egypt has done. In case she should decide so to tie up with sterling, and in case sterling should depreciate in terms of the dollar, as it did in 1923, it would be depreciating as a result of inflation in England, would it not?—Yes.

864. It would be necessary then, would it not, for South Africa in order to maintain her parity with sterling to inflate?—We must.

865. That would push up the cost of living?—Certainly.

866. What effect would that have on wages and the welfare of these native labourers about whom you were talking?—First on wages, we'll take native wages—I don't think the European wages are based on economic considerations, they are much better than they were some years ago—I think the "boys" would receive the same wages, and there would be a reversion to the state of hardship which existed when prices went up before.

867. Would there be an increase in their discontent?—Well, there would be a certain amount of sullenness; a hazy feeling that the money is not what it was. I think it would mean a diminution in their efficiency. They would feel they are not getting what they think they are entitled to.

868. It has been maintained by some witnesses that a situation of that kind would be likely, if it lasted very long, to lead to labour troubles and strikes?—The native does not analyse the thing, but he realizes that he is not being treated fairly, and he becomes sullen and discontented; and if it gets too far, he becomes truculent. We have had native unrest here; it would be an extraordinary thing if we had not. I think one of the effects of paper money, not only amongst the natives but amongst white workmen, has been to create this unrest, because they don't get compensation for it immediately. In the case of the native he does not get compensation at all.

869. With reference to this increase in the cost of living, do you think that sooner or later, if it should continue, an advance of wages would be forced?—Undoubtedly. The Chamber of Mines, who lead and who set the standard, not only for native but for white wages, would be sensible enough to see that they must not let it go too far.

870. If that advance took place during the period of inflation when the South African pound was following sterling downward, and then if sterling should turn round and move back because England still insisted on returning ultimately to a gold basis pursuant to the Cunliffe Committee's recommendations, and if South Africa followed suit, then you would have this period of inflation followed by another period of deflation?—Yes.

871. In that case prices and the cost of living would move downward during the period of deflation?—Yes.

872. What would happen to wages then?—Wages follow a longer time in the wake.

873. Would your native labourer resist that decline?—I think he would. He would not understand it. His knowledge is purely instinctive, and he would feel that he was being unfairly treated.

874. In that case, if you should inflate and then subsequently deflate, you would bring upon yourself, according to your statement, probably two periods of extreme labour discontent, one on the advance and one on the decline?—That is so.

875. What effect do you think the return to the gold standard would have on production in this country?—I answer that by saying how extremely difficult it is to discuss the matter, because
you have to get into other spheres of economics. I would like to say in a few words what the policy of this Government is, and then you will see how difficult it is for anybody to discuss the effect of anything on industry. This Government, and a great many people who are not connected with the Government, would like to see a ring fence round South Africa, with gates at intervals, letting things go out and allowing nothing to come in. And intelligent people in Johannesburg are utterly unable to understand why that is not the right thing. This is a country which produces and exports raw material which is freely received without the payment of any duty by every country pretty well in the world.

876. You say by any country?—By almost any country.
876A. In that case, does the Imperial preference in your tariff help you in your export trade?—No, because we can send to France, Germany, or America or England, maize, wool, cotton, and gold.

877. But it helps Great Britain decidedly with her export trade to you?—Undoubtedly. But then, that being the case the bulk of our people here are engaged in the production of exportable commodities or the production of commodities used by those people engaged in the production of exportable commodities or in the distribution of imports. I think the biggest industry—if it might be called an industry—in South Africa is the distribution of imported products. Now these smaller industries are starting up and, with the assistance of customs duties, are producing some of the commodities at a higher price required by the primary industries, and in that way increasing the burden of these primary industries. Now, when you ask me the effect it would have on production, I cannot answer that without saying: "Do you mean primary production or secondary production?" because my own feeling is that the encouragement given to secondary production, the value of which is of course included in the gold and farm products, is being overdone. So that I am not prepared in any consideration of that question to consider its effect on those industries.

878. Do you think these home industries are protected sufficiently by your enormous distance from foreign competing markets which acts similarly to a tariff?—Certainly. I know of cases where industries are being protected and they are not employing any more white people than are engaged in the distribution of a similar volume of imports.

879. Your two principal items of exports, if you view them over a period of years, are gold and diamonds?—Yes.

880. How, in your judgment, would the return to the gold standard affect the gold industry and the diamond industry?—Naturally, on paper, it would seem that the gold industry would suffer a temporary set-back, but I have been asking myself this question: If they would suffer a temporary set-back, are they getting something to-day to which they are not entitled, and if they are, at whose expense are they getting it? I say, if a man is suffering through getting back to gold, if he is going to lose, then he is getting to-day something he is not entitled to.

881. In that case it is the poorer mine which would be suffering most?—They are losing their premium?
882. Yes?—I don't know, because you see their expenses are the same as a rich mine.

883. Even if the poor mine had been forced to stop working, the rich mine would still be making considerable profit?—Do you mean if we get back to gold?

884. Yes. Assuming that there would be a temporary loss on the return to the gold standard—I think that is a debatable open question—but assume there would be. Then it would be the poorer mines which would feel it most?—The only loss, I suggest, would be in European wages; they would not be able to reduce the European wages in a proportionate degree. Their stores they would be able to buy at a lower price when existing stocks are
exhausted. Their natives have never been put up to a great extent and cannot be put down very much.

885. If there should be a price reduction as a result of returning to the gold standard so that the South African pound would actually have its purchasing power increased, and if European wages were not pushed down by the ordinary forces of competition under such circumstances, would not that be pretty nearly proof that the normal tendency of European wages must have been upward, and that all that would have taken place was merely to take up the slack more quickly than it otherwise would have been taken up; that is, just by a currency change you would not expect permanently to change the price of anything?—No.

886. You may temporarily change it. If you should make a currency change that actually raised the level of wages by, say, 5 per cent., and if there was usually a strong lag in such readjustment, if wages did not come down above 5 per cent., that would be pretty good evidence that the normal tendency of wages was upward at the time, and that you would have anticipated that rise?—That may be a world tendency, but I don't think that was the tendency here at the time of the outbreak of the war.

887. My point is, if that is true, it would be because Europeans would be entitled, under the ordinary conditions of demand and supply, to a higher wage, and this change due to the currency policy would merely have anticipated an advance that would soon have been necessary even had there been no change in the currency?—No, I don't see that. I say that trade-union activities would prevent it for a long time to come from going down.

888. Under such circumstances would it not be trade-union activities that would be forcing a rise?—No; I say, having got it, it is hard to take it away. I say they were extraordinarily well paid here at the outbreak of the war.

889. I wonder if we are thinking of the same thing. What I have in mind is this: Let us say that, for illustration, the South African pound should increase in value in terms of gold and in terms of purchasing power over commodities by something like 5 per cent. as a result of returning to the gold standard. In that case, after the adjustments were made, if the European wage-earners in this country should be compelled to suffer a reduction of 5 per cent. in their average wages, they would be receiving the same purchasing power as they are receiving now, because they are receiving 5 per cent. less pounds, but each pound will buy 5 per cent. more than formerly?—Yes.

890. Now I understand you to say, in case of such change, wages would not go down that 5 per cent., because it is so difficult to reduce wages, and that they would continue where they are?—For a considerable time.

891. Now my question is, if your assumption is a true one, would not the fact that they remained constant over a long period of time, despite the natural forces of competition, which would normally tend to force them down 5 per cent., no matter what your currency was, be evidence that the normal tendency of wages was upward, and that you had merely taken up the slack or anticipated a rise in real wages that would have been necessary later in any case?—No, I don't think so at all. I think where you have trade-union activity they say: "When the cost of living was going up you did not immediately compensate us for that, and we see no reason, now that the tendency is in the other direction, why you should ask us to 'come along' immediately this change takes place."

892. In both cases you would expect it to be done ultimately?—Yes, ultimately. I thought you were asking me the question as to the immediate effect. The eventual effect would be emphatically to reduce wages.

893. Eventually they would come down?—Certainly.

894. They would not come down eventually if the normal forces over that particular period were of such a character as to push wages up?—No.
[Mr. Charles Hewitt.]

895. In that case you would seem, as I have said, merely to have anticipated a rise that would soon have been necessary in any case?—That is so, but I think that was not the tendency here at the time this change took place. At that time, when the scale of wages in England was 5s. or 6s. a day, we were paying a pound a day here for the same work. The cost of living has never accounted for the difference between our wages and the wages in the older countries.

896. You are better paid here?—Much better. The single man could save considerably more here than his total wage in England.

897. Can he now?—No, I don't think so. Wages have gone up to a fair extent in England.

898. You are speaking only of European wages here?—Only of European wages.

899. (Mr. Middleton.) Of single men?—Yes. The conditions here are against the married man. His expenses of living are very great.

900. (Professor Kemmerer.) What about the effect of the restoration of the gold standard on the export and import trade?—That raises a point I would like to say a word or two about. The community here has been encouraged by people who ought to know better to call the difference between the value of English money and the value of our money exchange. I have mentioned in my memorandum that it does not respond to any known definition of the word "exchange." This is a platitude, but I have to say it to develop my argument; it is the measure of the difference between the value of the English money and our money. If £97 in South Africa will buy £100 in England, that £3 is not exchange and should never have been called exchange. It is the measure, as I say, of the difference between the two currencies expressed, unfortunately I think, in the same unit of currency.

901. It is a difference between the value of two monetary units?—That is right. Now the public here, who know very little about this matter, have been encouraged to look upon that as exchange and as a loss. That tendency has been encouraged by the banks and by the mines and everybody. The manner in which the banks quote their rates of exchange encourages that.

902. Would you prefer to have exchange rates quoted as a definite price?—Certainly. I would like to see £1 in England quoted at 18s. 4d. or 18s. 5d., and, of course, the converse; but then that would not suit the banks, because the one little matter they want to say as little as possible about—that is, the difference in the buying and selling rate—would be brought up daily, and not merely when the matter comes up for discussion. Even the mines have not been able to get the hang of this. They show this exchange as an expense. Now, this is South Africa: our money is South African money. The cheque that we draw on our own banking account is the price we pay for a thing, and if I pay £97 for a thing it is absurd for me to bring it into my books at £100, and on the other side of the profit and loss account to represent the £3 as exchange. The flesh of the unfortunate farmer has been made to creep when being told what will happen and the loss he will make in the transfer of the balances. It has been made to appear that it is a physical process transferring balances from Europe.

903. It would be just as sensible, we'll say, for a country like Germany as it was before the war, in referring to its trade with France, for Germany to speak of the exchange as representing the difference between the value of the mark and the value of the franc?—Of course. I had just that experience: I went to give evidence on the suggested Rent Act before a highly intelligent Committee of the House of Parliament. I tried to explain that comparing 1914 money with 1920 money was comparing like with unlike. One of the provisions of the Rent Act—one of the factors to be taken into account—is the rent prevailing in June, 1914. I tried to explain that one was gold money and the other was paper money, that the Government had ratified the action of the
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banks in making our currency inconvertible, and, unless you translated the money at the two periods into the commodities for which they would exchange, you would not get a basis of comparison. I think those gentlemen looked as if they wanted to have me locked up as an imbecile.

904. You were a theorist?—To develop my theme, I said: "Take the case of Germany. If a house were costing 100 marks a week in 1914, and the same house were costing to-day 2,000, that would have been an apparent increase of about 900 per cent. And, I ask, would you have that unfortunate landlord go back to twenty marks a week?" I said the difference between Germany and South Africa is only one of degree. I only mention that to show how difficult it is to get people to understand.

905. I was in Germany a few months ago, and I had to pay for an ordinary cigar 500 billion marks, which was equivalent to about sixpence?—This select committee would have said they would have prosecuted that man for selling a cigar at that price. That is nonsense. In so far as losses have been incurred in the exchange transactions are unfair and unwarranted compulsory levy on the exporter and the importer.

906. Some of the banks make the point in that connexion that there have been so many losses recently in connexion with commercial operations and the exchange fluctuations have been so pronounced, that it is necessary for them, in order to protect themselves against losses and against possible fluctuations in exchange, to charge a much wider margin than formerly?—I think that is nonsense. In so far as losses have been incurred in the past, thousands of people have made losses, and they have had to take their medicine. It is only because of the banks' privileged position that they have been able to do what other people have not been able to do.

907. How is it that competition among the banks does not assure a reasonable rate?—There is no competition. The mines will not buy or sell bills to you.

908. Isn't it true that a considerable number of exchange transactions are made directly between importers and exporters?—I can tell you as an accountant I have not seen one for some years.

909. Why don't they do it? There would be profit in so doing?—There undoubtedly. The chief reason is that the bulk of these people doing exchange transactions are in the hands of the bank, and if the banks see an exchange transaction going through, the customer is at once called up.
90. The bank, as soon as it sees that, discriminates against that particular individual in future dealings?—He is "carpeted" at once by the manager and told he mustn't do it.

91. Do you know of any cases?—I do.

92. You need not mention specific cases?—I know of specific cases.

93. Would this wide margin be reduced if you returned to the gold basis?—Oh, certainly.

94. You say there is no competition in exchange between the banks, that they practically fix the exchange by agreement?—They do it, and announce it, and put a joint advertisement in the paper.

95. You recently established in this country a reserve bank for South Africa which was supposed to be an institution quasi-public in character and established in the interests of the general public. To what extent has this reserve bank come in to compete with the other banks and to force them to quote exchange rates that are reasonable?—I don't think they do overseas exchange business at all. I have never come across their name in exchange transactions. I may be wrong.

96. Why should they not?—Because they are not in touch with exporters or importers, I suppose.

97. They are privileged to buy and sell bills in the open market according to law?—That may be; but I can tell you as an accountant that I have never seen in my clients' books any exchange transactions through the Reserve Bank. I didn't think they came into contact with the public at all.

98. They could not be very much of a factor in forcing reasonable exchange rates in case the rates tended to be unreasonable unless they came into the market and operated?—That is so; they couldn't. I wonder that somebody corresponding to the bill brokers in London have not entered this market. It must be enormously profitable.

99. Is there any exchange quoted in this market except sterling?—Every exchange is based on sterling exchange and the rate ruling between London and other countries.

100. There is no rate published in this market for guilders or francs direct?—No, it is just the rate between England and that country on the day of the inquiry modified by the rate between England and South Africa.

101. Both of the big banks have agencies in New York. Is there any reason why they should not quote direct exchange on New York?—Because England is the clearing house for South Africa.

102. Other countries do it, why should not South Africa?—I can't say.

103. The same is true of guilders; you have large Dutch connections here?—Whenever I have made an inquiry for foreign exchange I have always got the rate on London plus the rate between London and any other country.

104. That would presumably be a higher rate than the direct rate?—Yes.

105. The other point we wanted in this connexion was the influence that the restoration of the gold basis would have on the Union Government's finances. Have you any judgment on that?—On the question of the Reserve Bank you asked me what function would they carry out under a system of gold? I don't think it has ever carried out any function of any very great importance. I was one of those who did not see any point in an expensive reserve bank. When the National Bank were thought to be in difficulties it was very useful to have the Reserve Bank there to allay public feeling. But I do not see any purpose under gold any function that it could carry out, that could not be carried out by a small Government department costing a fraction of what the Reserve Bank costs. You have very few banks to control or to watch; and I think the Reserve Bank does not fit into the scheme of things under a gold standard.
926. You say these banks do not compete?—They do not compete; no. Just as in England, I gather the Bank of England is responsible to the Chancellor of the Exchequer, I think there should be some Government department which would watch this matter, watch the question of exchanges, watch the ratio of gold to liabilities and all that sort of thing, and report to the Government. But I think a very expensive reserve bank for this little community, where our overhead costs of public life are so enormous, is just adding another burden to our industry and commerce.

927. The Reserve Bank here is quite a different type of institution from the central banks of the Continent of Europe or of South America?—Yes.

928. Suppose this reserve bank, instead of acting as it has been doing so far, apparently only as a reserve bank and to help carry on part of the Government's fiscal operations, should extend its open market operations very materially and become a bank that dealt extensively with the public in high-grade bills and so on, like the Bank of France or the Netherlands Bank or the Bank of Uruguay, would there then be justification for such a bank?—Well, if there was genuine competition and they did ordinary banking business the same as the other banks do, and provided it were not a State-controlled institution.

929. You would not be in favour of a State-controlled institution?—Oh, no.

930. There is considerable agitation for a State-controlled institution, is there not, in this country?—Well, on the one hand, some people take the view that either the present Government or the one which immediately preceded it could not run a Chinese laundry; and the same people very often agitate for a State bank.

931. If the Reserve Bank does not function in an active way in the open market so as to force a narrow margin of exchange and in other ways to protect the public from the alleged monopoly control of the other banks, isn't it quite probable that their failure to act in such ways may give a great deal of encouragement to the people who wish to establish a State bank, and does not that play directly into the hands of the people who are advocating a State bank in order to protect the public interests?—Oh, certainly it does. But I think their views can be met by having a department which is intended to keep a check on the predatory instincts of the banks and the results of getting together and making their own prices for everything, including internal exchanges.

932. In that case this Government department would have to keep balances abroad, would have to buy and sell exchange, would it not, and do ordinary banking operations?—No, I don't think so. No, I think they would make inquiries into how far the rates of exchange were justified by the bills drawn on the country vis-à-vis the bills drawn by the country, and whether reasonable charges were being made or whether the banks were taking advantage of their monopoly. I think competition is an expensive method of achieving that object.

933. Is it your idea that the Reserve Bank should be dispensed with and a Government department of that kind put in its place?—Yes.

934. And that there is no necessity for a State bank at all?—No, it is an unnecessary expense in a community with a European population one-fifth of the population of Greater London. The country is altogether too small. We have been talking too big—as if we are a very big country. We are quite a small country. We cannot afford this multiplication of departments. A Government department should have the right to say: 'You have no right to be charging the exchange which you are charging to-day. You are imposing on the public.'

935. (Mr. Middleton.) What would be the good of saying that if you cannot effectively enforce something?—You could take powers to indicate the prices to be charged. We have done this in other matters. If there were competition I would be strongly opposed to any State interference. Such interference is only justified...
where a monopoly exists. Anyhow, I think under gold there is an automatic check in the fact that the public could export gold.  

939. (Professor Kemmerer.) What effect would the restoration of the effective gold standard have on the Union Government's finances, in your judgment?—The answer I have made to that is, the extraordinary expense increase in the Union Government expenditure since 1914 is only accounted for in a fractional degree by the departure from gold. The question of the Union Government's finances, as far as the collection of taxes is concerned, is a big question. We have increased I think by 125 per cent. or 130 per cent. Let me put it this way: the necessity for coming back to a figure which the country can afford dwarfs the question of the effect which the restoration of the gold standard is likely to have on Government finance.

937. Do you think it would have any material effect on the Government's finances?—It must reduce the nominal value of the taxes which the Government raises.

938. Would it reduce the nominal value immediately? After all, there is generally quite a lag in the adjustment of taxes to the value of money, is there not? Most taxes are levied in specific amounts or in percentages. They would be quite likely to persist for a little while at the present level, so that the Government would be getting paid in taxes which had been levied on the assumption of a paper currency and would be collecting them at par in gold currency?—The difference between the time of levying and the time of receipt would be comparatively short.

939. But there would be a lag there which would be favourable to the Government?—There would be a lag favourable to the Government. The liability would be incurred in paper and discharged in gold. To that extent it would be favourable. But the turnover of the nation would be reduced. Therefore all taxes based on turnover would be reduced.

940. In nominal amount but not in purchasing power?—No actual change in purchasing power, except in so far as that money is utilized to discharge liabilities, Government debt, or to pay the interest on Government debt. For these purposes paper money is just as valuable as the gold money.

941. If the Government borrows here gold money and pays back in paper money because the South African pound is depreciating, it is of course true that it would be paying less than it otherwise would. But is it not paying less than was expected by the lender when he lent the money; and if the Government pays less of course the lender receives less and if the Government pays more the lender receives more?—During the last ten years we have almost doubled our public debt, increasing it by nearly a hundred millions. The bulk of that has been borrowed in paper. Now, in so far as we borrowed it abroad the position is hardly affected, because the Government in remitting gets the benefit of the exchange. So it is only in so far as it has been borrowed in South Africa that they would be paying in gold money what they borrowed in paper.

942. While the South African loses as a taxpayer he gains as a bondholder?—That is so.

943. I take it from what you have stated that you don't think the effect either way on the Government's finances would be very great?—I don't think it would be very serious.

944. 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 into South Africa; or, on the other hand, would the return to the gold standard and the greater stability which would be implied or expected from that return attract capital to South Africa and prevent the capital that is here from going out?—In my written statement to that last paragraph of your question I have answered: "Yes. The stability which exists ought to attract capital." I want to qualify my answer by saying that I do not consider the transfer of credit.
Mr. Charles Hewitt.] balances from Johannesburg to London as the exportation of capital. I hold the view that capital is represented by buildings, machinery, plant, and other useful industrial commodities which are producing other commodities. There has been a good deal of loose talking amongst the popular economists about the deleterious effect of sending capital out of the country, as if the transfer of a book-keeping entry as between the London ledger and the Johannesburg ledger were the transfer of capital.

945. If you assume that capital comes into this country primarily in the form of goods of one sort and another, do you think the return to the gold standard would increase the rate at which foreign capital would come in here, or would it decrease it?—I think it will increase it, for one reason: it will produce stability, and the investor will know the currency in which he gets his return. £1,000 in England will buy £1,000 worth of commodities which are sent here and either used as industrial plant or sold and converted into South African money. The actual capital coming into the country in the form of commodities will not be in the least affected by the change to gold. Those commodities which come into this country are purchased in English money. If an investor wants he gets a thousand pounds in South Africa, that thousand pounds will be converted into commodities and sent out here, so that, from the point of view of capital as a whole, there is no detriment suffered.

946. What would be the effect on exchange rates between South Africa and Great Britain if South Africa should return to the gold standard in advance of Great Britain?—There again I am in difficulty as to the definition of exchange rates.

947. For the sake of getting together on something, we will assume that the exchange rate in South Africa on London is the price in South African pounds of the right to draw pounds in London by cable?—Yes, leaving out of question all time contracts?

948. Yes?—The so-called exchange must always be equal to the gold premium—round about.

949. But the gold premium, if England stays on a sterling basis, is changing every day, and the sterling-New York cross-rate often moves several times a day. Despite the fact that that cross-rate has been going up and down nearly every day, sometimes because of changes in the value of gold in America and sometimes because of changes in the value of sterling in England, the rate here seems to remain pretty nearly fixed. It does not go up and down now with the cross-rate?—On the other hand it must be fluctuating in terms of American money, which is on the gold standard.

950. Do you think if this country stabilizes with gold that the exchange rate is going to fluctuate right along in the same way as the cross-rate?—I think it must. I think it would be stable in terms of the dollar currency.

951. It certainly is not stable in terms of the dollar currency now?—I know that is so. That is because of the fluctuation in the English rate.

952. There is no conversion of South African pounds into sterling at par or at any other fixed rate. There is no provision for convertibility to sterling at the present time either at par or, say, 3½ per cent. discount, or 2 per cent. discount, or any other fixed rate, yet the banks hold it here at a rate like 3½ per cent. for months despite the fact that the actual value of the pound sterling is going up and down every day?—Yes, that is so.

953. Could they not hold it fairly stable then in the future if the actual value of the pound sterling should continue to go up and down as it does to-day?—No; if it were in our favour we would ship the gold ourselves.

954. If it were in your favour sufficiently to justify the shipment of gold. In this country at the present time I suppose the bulk of the specie that would be shipped would be shipped by the two banks?—Yes, but then we would have that check on them. If after getting back to gold they tried to hold the exchange with a constant difference between South Africa and England, there must
come a time when it would be more favourable to the remitter to send gold overseas.

955. Let us grant that that would take place when the rate reached the gold export point for specie or the gold import point. But those are extreme rates. Now, between those extremes, could not the cross-rate go up and down right along without necessarily affecting your rate in view of the monopoly power exercised here by the banks and the absence of direct exchange operations between South Africa and markets other than London making possible arbitrage transactions?—Certainly, within the limits of the gold points.

956. In your judgment there is no reason to think if you stabilize that you are going to have a rapidly fluctuating exchange with sterling?—No. That is one of the things which have been frightening everybody. Within the limits of the gold points they can hold the exchange.

957. 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 return to a gold basis 1st July next?—I don't know what that assumption would mean. I would not be prepared to accept any assumption at all.

958. Supposing a statement should be made positively committing England to return twelve months hence?—I think we might say, as we are going for another twelve months if we have a very definite assurance. But we have not got that assurance and we don't know what the policy of England is.

959. Is that in agreement with your previous statement that you should go back regardless of any action?—I think it is a question of the extent of the time which is to elapse. I think in my previous statement you went to a couple of years.

960. There was no time mentioned?—I think for the sake of six months I would wait.

961. If England were going back in twelve months and you were committed to go back in six months, the difference between your rate here in gold and the English rate could not be expected to be at best over the amount represented by the rate of interest over six months' time?—No.

962. You are already 3 per cent. to 3½ per cent. above Great Britain?—Yes.

963. So even if you return 1st July and they did not return till 1st January of the following year, you would not throw your exchange out of harmony with Great Britain any more than it is out of harmony now?—No.

964. Would it be worth while under those circumstances to postpone it for six months when the difference is so slight and is already existent?—No. I think probably I would revise what I said and say that it would probably cause less dislocation and less uncertainty to go back at once than to wait another six months. But then on the question of the policy of England, we had an English economist out here, Mr. F. W. Hirst, who delivered a lecture on that point. He explained to us that at that time Mr. Baldwin, who was the Chancellor of the Exchequer, said it was the deliberate policy of the Government to depreciate the real value of gold because of the American debt. I only mention that as indicating the uncertainty of what England's policy will be, and also that that policy will probably be influenced by the existence of that huge debt to America.

965. England has not been doing that lately?—No. This Government has only been in power a little while.

966. England has as much due to her by other countries as she owes to America?—On her books, yes. She has less expectation of getting what is due to her than America has.

967. England has invested huge sums of capital privately in countries all over the world. She has enormous sums due to her as a result of the bonds she has purchased in South America and other places in different parts of the world on private account?—Yes.
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968. Those bonds are payable for the most part in pounds sterling, are they not?—Yes.

969. The more she depreciates her pound or the more she depreciates gold, if she should return to the gold basis, the less she will obtain in receiving her payments of principal and interest in these debts. So that is a two-sided proposition?—Yes. That shows the complexity of the problem. Then there is the fact that we have nothing to do with England's currency. We have no control over it. It is entirely a matter for her Parliament. And I think that is a strong enough argument against following blindly in her wake. Any government may come into power and upset the arrangements of a previous government.

970. When you decide to tie up definitely to sterling, and announce that you will, you are subject to all the monetary politics of a country over which you have no control?—Yes, including the possibility of war. There have been occasions since the Armistice when things looked very nasty, and another war in Europe would have put us back in our old position if we had followed England's wake.

971. Including the possibilities of a managed currency?—Yes. There are a great many really plausible and clever people who are advocating that.

972. If you tie up with gold you subject yourself to all the peculiarities of gold as a commodity and all its possible ups and downs. Inasmuch as your principal product in this country is gold, would not this be putting all your eggs in one basket?—If gold goes, we all go. That is a very good reason for crying gold from the rooftops. I think it ought to be the policy of South Africa not merely to get back to gold but to spend money on the most intensive propaganda in favour of the restoration of gold throughout the world.

973. Might not some one argue the opposite, that as things are now, if gold goes, you go too; but if you tie up with sterling, if gold goes, sterling does not necessarily go, and therefore you only half go?—We are so much dependent on our gold mines that I don't think we ought to entertain the idea for one moment of gold going, because it is our chief product. We want, I think, to do something to counteract this very clever propaganda written by Kitson, Darling, and others in favour of the abandonment of gold. It is our life's blood in this country.

974. If you should decide definitely to go back to the gold basis on 1st July next year, and should announce that fact to the public, as I understand you recommend, what special measures, if any, should be taken now to prepare the way for that return?—I have not given that aspect a great deal of consideration. I think the best way would be for the banks to announce in advance their rates for each week between now and the date gold is restored.

975. Even if you did not do that, would not this very assurance that you are going to return mean that the minimum rate possible could not be appreciably below, as I said before, the discounted value of the right to draw a sovereign 1st July next and that fact would assure you a gradual return to parity without any complicated measure of the kind you mention?—Yes.

976. What function should the Reserve Bank perform in connexion with this problem of returning to the gold basis if it should be decided to return?—I don't see any function for it.

977. You don't think there is any definite programme that it should arrange to anticipate and prepare for convertibility?—No, I don't think so.

978. If it should be decided to return 1st July, what action, if any, should be taken with reference to the gold certificates?—I am afraid I haven't thought that out.

979. Should they be retired from circulation, and should provision be made that no more should be issued? They are now legal tender, I believe?—They are legal tender.

980. Would they have any function in the future if Reserve Bank notes should be placed definitely on a gold basis? Would there be any reason in having two kinds of paper?—I don't see
any reason for having it, but at the same time I must say that I have not considered that aspect of the question. There is only a certain quantity of notes which the country will absorb and it does not matter which they are.

981. From the standpoint of the Reserve Bank, there is a profit in keeping Reserve Bank notes in circulation. The bank is required to keep a gold reserve of only 40 per cent. against its outstanding notes. Part of this profit goes to the stockholders and a part goes to the Government?—Yes.

982. Whereas there is no profit to any one, is there, in issuing gold certificates backed by 100 per cent. gold?—When I thought this matter out of going back to gold, I have always contemplated the position that outside the fiduciary issue, all notes should be backed by gold.

983. As I understand it, there is a provision that all the Reserve Bank notes must be backed by 40 per cent. gold reserve. Of the remaining 60 per cent. of assets held against these notes, 35 per cent. may be in the form of Treasury notes or of bills collateralized by Treasury notes. The bank must have 40 per cent. gold reserve in any case?—That is part of our paper-money scheme.

984. That is all we have to ask at this time, but we are very anxious to get your message on any phase of this subject on which you have a message that you think might be helpful?—I will glance through and see if there is anything here that I have left out.

985. According to our present plans these memoranda will not be published with the evidence. If, therefore, there are any points in your memorandum that you want to bring in in answer to any of the questions that have been raised, it would be desirable for you to do so now?—I am looking at something else, not the memorandum, but a lecture which I gave on the subject of the gold currency some time ago to the accountancy students of the university. I have in front of me now an extract from a speech made by Mr. Leisk at the annual meeting of the National Bank:—

"There is a belief in some quarters that the present absence of a free gold market is advantageous to the banks, and that therefore it would be contrary to the interests of the banking institutions in this country for the inconvertibility of the gold certificate to be removed. This idea, of course, is utterly fallacious. The absence of a free market in gold is a source of the greatest embarrassment to the banks. Indeed, it is no exaggeration to say that it is the most perplexing and harassing of all the difficulties that we have to contend with in these troublesome times."

986. When was that statement made?—Quite recently at the last meeting of the bank.

987. Which bank?—The National Bank. I commented on that in my remarks. I said:—

"This being the case, I am a stronger advocate of the gold standard than ever. I was under the impression—as were many others with whom I have discussed the matter—that the reason why the banks without the consent of their depositors obtained relief by legislation from their admitted legal liability to pay their depositors in gold was the existence of the London accumulation, which they had wrongly accepted in paper, while accepting liability to pay out in South Africa in gold. I was also under the impression that the continued existence of their large accumulations—as to the amount of which there is and has been so much reticence—was the only obstacle to a return to gold. If I am wrong, I hope I will be corrected when I say that when we return to gold the banks will lose the difference between the gold value and the paper value of any remaining London accumulations, a loss which would not have to be faced if we returned to gold simultaneously with London. The fact that a loss may have been provided for in whole or in part does not alter the actuality of the loss. Another question I would like to ask is whether the banks will not, on a return to gold, sacrifice the revenue which at present they receive through selling their London currency at a price higher than
that which they pay for it. I will give another interesting extract from Mr. Leisk's address. He says: 'As a practical illustration of the uncertainties of the situation from the point of view of the South African banks, I would point to the directors' report which is in your hands this morning. It is there stated that we have established a reserve against the possibility of depreciation in our overseas sterling balances. The precise meaning of that precaution is that if South Africa goes back to a free gold basis before the pound sterling moves closer to gold parity, then all those South African concerns which have surplus balances in London will automatically see these balances depreciated in value by the amount that it would cost to return them to this country. Obviously, that cost, under conditions such as I have indicated, would be greatly in excess of the present day rates of exchange for remitting from London to South Africa.' There is a prevalent idea amongst a number of people—but not, one would suppose, amongst bank directors—that the transfer of bank balances from one country to another is a physical and not a mere book-keeping process, and that balances can expand or shrink in the ordeal. People who have funds in London as a rule require them for one of two purposes, viz., (1) to settle overseas commitments or (2) to convert into commodities for import to South Africa. For either purpose the value of the money in London will be unimpaired by our return to gold. The great fallacy which I respectfully suggest underlies the above statement, however, is one which has been used over and over again by people who ought to know better, and in many cases do know better, to make the flesh of exporters, and more particularly the uninformed farmers, creep. If we return to gold before England, the larger number of paper pounds which we will get for a given number of South African pounds may not exchange for more than the present difference. It will be the measure of the difference between our good South African gold money and the less valuable English paper money. The exporters will receive a smaller number of units of better money, therefore will not lose. The country as a whole cannot lose, because the value of the proceeds of our exports, whatever currency they are expressed in, will be available for the purchase of imports or for the settlement of overseas differences, just as they are to-day. A good deal of confusion would be avoided if the banks were to publish their quotations in such a way as to show in shillings and pence how much they are willing to buy or sell an English pound for. For a similar reason, the differential rates for small and large amounts should be dropped. I may add that, in my opinion, the confusion has been added to by the mining companies treating the difference between the value of our money and English money as an expense instead of expressing the net proceeds of their gold in the currency of this country.

998. (Mr. Middleton.) How do they deal with shares transferable between London and South Africa?—I don't know whether this has been mentioned to this Commission. One effect of the return to gold will be that all the overseas shareholders will register on the South African register in order to get their dividend in South African money.

999. That means a large transfer of stock?—Yes.

999. (Professor Kemmerer.) I have a statement here that there are certain Cape stocks, of which the amounts outstanding total about £34,000,000, which are registrable alternately in Capetown or London. At the present time there is about £25,000,000 on the London register and about £9,000,000 on the Capetown register. The effect of a large premium on the South African pound would be a corresponding fall in the price of stocks until the arbitrage advantage disappeared. Will you kindly explain just what is meant by that. It is not clear?—Supposing they have the option of registering either in London or South Africa, there will be a rush to register their stock in the South African register.
991. They are registered either in sterling or in South African pounds?—Yes.
992. And they would register in South African pounds because the South African pound was more valuable?—Then when they get their interest from time to time drawn in South Africa, paid into the bank here, and transferred to England, they will get the difference.
993. That does not increase or decrease the actual value of the assets of the corporation?—It will increase the London value.
994. It increases the nominal value, but it does not increase the actual value?—Not the slightest. I have also a letter which I read at the time Mr. Hirst made that statement. (Handed in.) I would like to refer to the manner in which commercial transactions are rendered more difficult by this paper money. I happen, amongst other things, to be assistant auditor of the totalisator of the racecourses, where we handled £27,000 in one day recently. Our work has been very greatly increased and complicated, and our liability to error greatly increased, by these notes.
995. How is that?—When we had sovereigns and half-sovereigns we did the work in half the time.
996. I don't see why?—In handling money, in receiving and paying out change. We have not got 10s. notes to-day. The 10s. is our unit; the tickets are 10s. each. They have practically called in the 10s. notes. I don't think we handled more than £50 in 10s. notes.
997. All the rest was in silver?—Pound notes or five pound notes, but our unit is 10s. Even when we had the 10s. notes it was very difficult as compared with gold in handling large sums. And on the mines, where they are paying 3,000 or 4,000 boys a week, it is a very big question.
998. (Mr. Middleton.) Is it fair to the mine boys, who would prefer to have the small change, that is charge under a pound, in silver, but put them to inconvenience by giving them a 10s. gold piece or a note, just because it suits the employers, instead of studying the convenience of the boys?—I believe in studying the convenience of the natives.
999. It is the same with the general public too. When you go into a shop you are not anxious to have 10s. notes. Any workman getting his pay at the end of the week does not want 10s. notes. He would prefer to have silver for the broken pound?—I am talking of the man behind the counter. He would rather have the half-sovereign.
1000. (Professor Kemmerer.) That could be arranged automatically if you would do as we did in the Philippines some years ago. We provided that in Manila and, as far as possible, that at every one of the Provincial Treasuries paper pesos and fractional money should be interchangeable on demand in sums of ten pesos and multiples thereof. It meant the inconvenience of a little accumulation of funds in those places, but it had the advantage that, if there was too much paper in any community, according to the desires of the people, they brought in the paper and took away silver, or, if there was too much silver, they took paper. The character of the currency circulating in each community was thus easily and automatically adjusted to the wishes of the public.—My point was not from the point of view of the public, although I admit the public should be the first consideration. From the point of view of the actual mechanical handling of cash, even if the 10s. notes were freely in circulation, gold is very much preferable in the handling of large sums.

THURSDAY, 18TH DECEMBER, 1924.

MR. ALEXANDER AIKEN (examined).

1001. (Professor Kemmerer.) What experience have you had in this particular field, Mr. Aiken?—I was once a banker. I am a public accountant in practice in Johannesburg.
1002. You have made a study of this subject covering quite a period of time?—I have been at it all my life. I had to study
political economy and got interested in it when I was a student and passed examinations in it. I don't know that that is very much, though. I am afraid I learned far more afterwards.

1003. You know that the problem that has been placed before this Commission by the Government is the problem of whether South Africa should return to the gold basis 1st July next, in accordance with the existing legislation, regardless of what might be done by Great Britain or whether it should extend the time of inconvertibility for a longer period?—Yes.

1004. We want to give you a free hand to give us your message on this subject and don't want to curb you by restricting you to the answering of our specific questions; but in order to suggest a possible line of discussion that would bring out some of the main points, we have prepared a questionnaire, which I believe was put in your hands a day or so ago. You are at liberty, in considering the subject, to stick as closely to these questions or to wander as far from them as you may wish to. The one thing we want is your message. The first question is: Are you in favour of South Africa's returning to the gold standard 1st July, 1925, without any restrictions, and, if so, why?—I am, principally for this reason: currency has something else to do than merely to operate as what you would call a balancing factor in exchange transactions between countries. It has also got to act as the valuing factor for all other commodities. Now, it cannot do that if it has not got something—I don't like the term, but "intrinsic value" will probably convey the meaning I have at the back of my mind.

1005. The phrase "intrinsic value," I believe, has rather passed out of use in economic circles since Jevons's criticisms of it a couple of generations ago. Sometimes the term "bullion value" or "commodity value" is used in its place?—It must have a value and not be a currency that depends on nothing, that hangs on thin air, which is the position of our currency to-day. The value which our currency possesses to-day is liable to be altered and varied by influences which, I think, ought not to interfere with currency at all. It is by this means that a paper currency can be varied...

1006. Let me interrupt you a minute: Isn't it true that a paper currency, just like a gold currency, depends for its value on the interaction of the forces of demand and supply?—To some extent only; I don't think entirely. I cannot for the life of me see how any demand could ever arise for a currency like that of Russia.

1007. There is a demand for a circulating medium?—Yes.

1008. If you throw large quantities of a circulating medium on the market, it depreciates. If there is a prospect that you are going to throw more and more on the market, the increased supply not only depreciates it rapidly, but the anticipation of a further decline increases the rate of monetary turnover, increases the desire of dropping it as quickly as possible, and that speeds up the rate of depreciation. But the point I was trying to bring out is this: Isn't a paper currency and a gold currency alike in the fact that this value in both cases is determined by supply and demand, and supply and demand solely, if those terms are interpreted broadly? But the difficulty with the paper currency is that the supply is determined by the judgment or the caprice of individuals, and you cannot count with any certainty upon how much will be thrown into circulation, or how little; while the supply of gold currency is determined largely by world forces of gold production which are more automatic and less open to manipulation and to political influence?—I entirely agree. You have expressed it much better than I could have done. I am quite prepared to accept that. Now the question was, why I hold that we ought to get back to the gold standard in July, 1925. Mainly, I want to get rid of these influences, or caprice, or bad judgment. My own feeling is that until we do, we'll never have anything that we can call stability. And I think that in all currency matters certainty—as I would rather put it—is of far greater importance than any theoretical advantage that you may imagine you are gaining from any other form of currency. That is one reason. The other reason
is this, that we are so near the gold basis now that I think it would be a crime to allow the chance of getting back all the way to be lost.

1009. As measured by exchange rates, you are practically at gold parity now, are you not?—I should say the difference is about 1 per cent., which really means nothing. Therefore I think that if you gave the banks the six months in which to put their house in order, because the way it will affect them will be through the accumulated balances in London, which they will have in some way or other to liquidate and get converted into balances in South Africa or perhaps in New York. If we give them six months' time, that ought to be sufficient to enable them to deal with this necessity.

1010. Why will they need to convert those balances in London into South African currency, in advance?—Because they are excessive.

1011. The Reserve Bank has a very substantial gold reserve now. If it should put up its discount rate slightly, and say: "We'll convert to-morrow, and when the paper comes in we'll just give out the gold and let it go," do you think it would lose very much gold if before it were have parity established?—That is not the point. The point I have in my mind is this, that the Standard Bank and the National Bank have large balances in London which have, whether rapidly or slowly, grown beyond the requirements of the banks in England. Now, these balances ought to be brought out here. The banks can't do it to-day without losing money, because, in order to bring them out, they must in some way sell bills on London or else refrain from shipping bills to London. One or other they have to do in order to reduce these balances. Given the six months, I think they ought to be able to do it.

1012. Why have they got these large balances in London? South Africa has not been at a fixed parity with sterling. You have a fluctuating exchange there—at least to a certain extent. And if banks buy another exchange heavily and don't cover, it would seem that they were gambling for an advance in the value of that money?—No, that is not how it has operated. It has operated in this way, that the trade of South Africa is more export trade than import. It exports more than it imports so far as physical imports and exports go. The result is, there are more bills on London offering than there are demands for bills on London. So that in order to finance the exports of South Africa, the banks have, to their own detriment, bought bills on London at rates they ought not to have made. They ought to have made the rates stiffer; in other words, if they had done that, they could have had any complaint at all. Of course, you will find different people will explain the position on different grounds. I think the figures of the past few years show, on the whole, that if you include what are called invisible items in the general terms, the exports and imports of this country have fairly well balanced.

1013. How could it be otherwise, unless the country were getting something for nothing or giving something for nothing?—Exactly. How these balances have accumulated in London to the credit of the banks here, which they cannot use here—they have to make use of them in England to-day—is through the borrowings of the Union Government in London. They have, over and above the ordinary known trade exports of the country, gone in for borrowing a lot of money in London for some years past.

1014. These balances are partly the result of South Africa's borrowings in London and represent part of the proceeds of this borrowing?—And spent here; and the banks are unable to sell bills on London in order to cover their payments or purchases here. That is the position as I see it. As I say, you will find others who will probably give you a different answer. That is my view of the position.

1015. If they should increase their discount on sterling, namely, reduce their present exchange rates, making the rate increasingly favourable to importers, would not that stimulate imports somewhat and facilitate the return?—It might. I would not like to
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answer that. Your merchants could better answer that. After all, exchange cannot amount to a great deal in the total cost of goods when we are so far from the market, and there are other costs in connexion with goods which matter to a larger extent. For instance, the buying commission itself will easily swamp the exchange rate.

1016. Have you any idea as to the amount of these balances in London?—I don't know.

1017. Are they published from time to time?—I don't think so. The banks have refused to disclose them over and over again.

1018. Is this a new situation, or did these large balances accumulate there in much the same way in pre-war days?—No, they did not. They were kept in balance then through shipments of gold. As a matter of fact, we imported gold coin regularly into this country. There is one element of demand that used to operate in South Africa, that was, a steady withdrawal of gold coin by the natives that came from Portuguese East Africa mainly. That drain was constant. I believe there is a good deal of hoarding by our own natives, because since the war, and since all the gold has not been withdrawn in, we know a lot of gold has been floating around in the native territories.

1019. Because of the recent establishment of the mint here, in the future, instead of importing gold coin you will simply export less gold bullion, and coin what gold you need here?—That is right. That is what it will probably come to. That is probably the way that these balances in London will have to be reduced.

1020. A reduction in the exports of gold?—We will have to reduce the exports of gold and will still have to go on paying our way by drawing bills on London.

1021. Does that cover all you want to say in regard to the first question?—The only other suggestion that I have ever seen here offered with regard to our currency is to keep it on a parity with sterling, but the very people who talk about keeping it on a parity with sterling admit frankly that we must get back to the gold standard some day. Now, the position as I see it is that, by keeping to inconvertible paper and following sterling up and down—we have done both, you see—we are really keeping alive a good deal of distrust and hostility between opposing interests. Take one flagrant instance: You will find that the gold producers are very irritated with the banks. Why? On account of this exchange rate. The exchange rate is really not low enough, or, in other words, the discount rates should be higher in order to relieve the banks of loss in covering, whether by importing gold or refraining from exporting gold, whichever may be the case. Therefore the feeling that the gold producers show is quite unreasonable, and it merely means that they don't appreciate what the actual position is. For reasons like this I think the sooner we get back to gold the better.

1022. You mean it will break down these animosities?—Precisely. Then we will be able to put the collar on the right horse. They can see then where they are. There is no such feeling if you ship goods to France and get paid in francs; they don't kick, and they have nothing to say to the banks if they convert those francs into sterling at the rate of the day. Your wool-growers here, for instance, when they send their wool to any French town, have no grievance about the conversion of francs. All their grievances arise from the fact that the sales in England are expressed in pounds, which they consider should be convertible at par into South African pounds. It is natural in one way, but, of course, it is awkward in another. It is only to be cured by time and education. The quicker we get back to gold, then people will the sooner know that there is no further stage to be taken with regard to currency, and they will settle down to it whether they ever understand it or not.

1023. In that connexion the statement has been made to us that the labouring men have been rather discontented over the wage situation, and that the fact that they are being paid in paper instead of gold has given rise to suspicions and hostile feelings that
probably would not exist if the same wages were being paid in gold. In other words, that it is said, labouring men—many of them—feel that something has been put over on them, and is continuing to be put over on them, because they are not receiving gold wages. Do you think there is anything in that?—Yes, I have heard it. I believe there may be a body of opinion among the working men to this effect. I think it is possible: I don't know personally; but I have seen it urged in the newspapers—in letters to the papers—and I think I have observed some of our labour leaders talking that way, too.

1024. You think, then, that South Africa should take steps independently of Great Britain to return to the gold standard regardless of any action that might be taken by Great Britain?—I think regardless of anything.

1025. Supposing that Great Britain should announce in the very near future that she intended to resume specie payments 1st January, 1926?—Then I would not take any independent action, the difference in time would be slight. But it would have to be a definite step that England ought to take; in other words, I mean I would not care to accept Mr. Baldwin's statement that he intended to do this on the 1st January, 1926, unless he brought a Bill to terminate everything that stands in the way of that step. Then, if he did that, I would say: "Yes, I don't mind."

1026. Let us follow that up a little farther: If England should announce now positively that she will return to the gold basis 1st January, 1926, and the public should believe it, the sterling paper pound, in addition to being currency, would become practically a promissory note offering to pay one sovereign one year hence on demand?—Yes.

1027. Therefore if it tended to depreciate below the present discounted value at the current rate of interest of a promise to pay a sovereign one year hence, it would pay the public to withdraw it from circulation and hold it as an investment?—Yes.

1028. In other words, the discounted value at the current rate of interest of that promise to pay would represent a minimum gold value below which the paper pound couldn't very well go. And, in view of the interest rate of the Government of England—which you realize is a fairly low one—you would not expect the paper pound on that basis to be at the minimum much less than 4 per cent. below parity even now, if the commitment were made at once, and it would continuously approach parity?—That is right.

1029. In that case by 1st July next, when South Africa is scheduled to return to the gold basis, it probably could not be much more than 2 per cent. below parity?—That is right.

1030. The South African pound is already, according to the banks' buying rate, more valuable than sterling by more than 2 per cent.?—That is right.

1031. So under those circumstances, what would be gained by waiting till 1st January, 1926, if you can continue the situation where you are practically at gold parity?—The gain would be this, I think: If everybody believed, and if we had a definite step taken by England such as I have suggested—something more than a declaration by the Prime Minister—then the banks here could safely lower their exchange discount rate to probably ½ per cent.; at all events, certainly down to 1 per cent. The banks would thus get rid of all this feeling against them for what they have been doing, or alleged to have been doing, in the past, and would say this to themselves: "All right, it merely means that we have to wait until the 1st January, 1926, before we can do what is necessary, but we can manage to carry on, having the Reserve Bank here to supply us with currency as we need it. As we can borrow from the Reserve Bank on British Treasury bills in the meantime we'll buy British Treasury bills with the surplus money." That is why I discard any action or any consideration of action by England, because I frankly don't expect that the condition which I would impose would be fulfilled.
1032. Would you impose a condition that it should positively commit itself and express that commitment in the form of definite legislation?—That is right.

1033. You think, however, that such action is highly improbable?—I fear it is.

1034. What do you think the prospects are that sterling will continue to advance toward gold parity during the year 1925, as she has been advancing during the year 1924?—Well, as a matter of fact, I don't think England has advanced. My own view of the matter is that it is the action of America that has improved sterling. American prices have increased a bit.

1035. Not very much during 1924?—It may be speculative. I know that the information I have privately from London is to the effect that there it is anticipated that within 1925 England will get back to gold parity, to the gold basis. But there is a body of opinion in England that is scared over the thirty millions that they have got to pay America every year, and because of that they are frightened to go back to gold. I don't see that it is going to make it any more difficult for them. It is going to make the burden of taxation a little bit heavier in England and probably a little bit more difficult to find the thirty millions.

1036. Great Britain is still a creditor nation, and her people still hold large quantities of foreign bonds payable in sterling, do they not?—Some, but not all. You take our indebtedness here of the loans to the Union Government, for instance: Some are payable in London, on a sterling basis, others are payable here. Some are payable at the option of the holder either there or here. With the old Cape stocks, some of them are payable at either place, I believe.

1037. Great Britain had been lending, before the war, very substantial quantities of money to foreign countries—South America, Central America, Mexico, the Orient, and so on. Isn't it true that most of those loans are repayable in sterling?—A lot of them are. I can't tell you what proportion.

1038. England may be a debtor to the United States, but she is a creditor of a great many other countries. If she pays in a slightly appreciated gold and returns to the gold standard, she will receive in a slightly appreciated gold; and if she should succeed in depreciating gold as a creditor she would likewise be depreciating gold as a creditor. If she stays on a paper money basis she will have her payments to make to the United States in gold and will receive a large part of her payments from abroad in paper?—That is perfectly true. The question is whether the amount of the one is greater than the amount of the other. On that point I have no information.

1039. It is sometimes argued that because of this big debt to the United States it is desirable for England to do everything in her power to depreciate the value of gold, so that she can pay that debt off in the smallest possible purchasing power?—That is so.

1040. Have you thought of that philosophy from the standpoint of South Africa?—From the standpoint of South Africa I think it is fatally wrong, because it is a deliberate attempt to lower what you might call the intrinsic or the commodity value of gold; and for a country which is so dependent on gold mining as we are, I think it is suicidal. That is about all I can say. I think it is quite wrong from the point of view of South Africa to lend ourselves in any way to any idea of even minimizing the use of gold. We want to increase, to raise, the value of gold. We don't want to reduce it. It will help us all if we raise it—I mean here, whatever it may do elsewhere.

1041. You are primarily concerned with South Africa?—Yes. This is a South African problem, and I am looking at it from the point of view purely of South Africa.

1042. Suppose the question were before the League of Nations as a matter of international policy?—That would be a different matter. Professor Cassel wanted practically to depress the value of gold when the war ended. Now he has turned round and says
we are to get back to gold. That is extremely interesting to me, anyway. It means this, that he, I think, was inclined to Irving's idea of a managed currency on the basis of what you call the price level; but he apparently thinks now that human nature being what it is, it cannot be managed efficiently at all events.

1043. At least for some time to come?—That is right. I am afraid I am too old ever to see it.

1044. What would be the effect, in your judgment, of South Africa's returning to the gold standard independently of Great Britain, say, on prices and wages in South Africa?—Well, prices in my opinion would probably tend to fall slightly, but very slightly. They cannot fall very much. If we get back to gold, what does it mean to us? Hardly any difference in our currency, therefore very little difference in our internal prices.

1045. If you were trying to pass a judgment as to what the price level should be in South Africa, with reference to price levels in other countries, measured by index numbers, how would you figure it out?—I haven't looked at that very closely for a considerable time. But I think our price level is about as low as you will get it anywhere.

1046. The United States is a free gold market?—Yes.

1047. The price level in the United States, as compared with 1913, is to-day about 149?—A good deal higher than ours.

1048. You are 133. You are therefore much lower than the United States compared with 1913?—That is right.

1049. Doesn't that look as if you had not only deflated to the gold basis, but perhaps have overdone your deflation a little bit?—No. Let me say this: you have had the experience in America also where there has been a good deal of unconformity between different commodities. Our pre-war comparative figures between different commodities also vary considerably.

1050. But this is an average of a large number of commodities, and the tendency has been, I think, toward the restoration of something that roughly approximates the pre-war equilibrium among different groups of commodities. This price index number in South Africa that I am referring to covers about 188 commodities, and in America the Bureau of Labour Statistics index number covers more than 300 commodities. When you average such a large number of items you get compensations you get "the stability of large averages"—You may. I didn't know what you were taking when you mentioned the 133. In my opinion, the deflation which has taken place in South Africa is not capable of being measured accurately by the difference in prices between 1913 and to-day. The reason is largely this, that on the Rand, Kimberley, and some other parts of the interior of the Union, the average prices in 1913 were comparatively high, and the reason I give for the high level of prices is that the standard rate of wage was also high. Now, the districts I have mentioned must bulk largely in the whole trade of the Union; therefore, the comparison between 1913 and now in their case must have considerable effect on the general average. The increase in the case of these interior districts is much lower than it is at the coast. What has happened in South Africa has been this: that prices all over the Union have tended towards equality, so that if you were to compare prices between the two dates in a place like Durban or Capetown, you would find the inflation over 1913 much more than if you compared them on the Rand.

1051. They are weighted according to consumption in South Africa?—That means this: If you are taking articles consumed here you are dealing mainly with agricultural produce and also with imported clothing; very little else. Now, that is exactly my point: it appears in the figures from America too. Agricultural produce has been unduly deflated both in America and here in comparison with all manufactured articles. The influence of agricultural prices makes the average appear unduly deflated. The same unconformity prevails with regard to wages. There is a great deal of dissatisfaction here on account of the fact that certain classes of employes are paid proportionately much less
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that others who used to be paid a great deal better; and that were paid better for sound reasons. Take for instance an artisan: he has to spend five years of his young life learning his job in order to be an efficient artisan. And on the mines to-day competent artisans are getting less than the ticket-puncher on the municipal trams. That is to my mind an artificial condition which must be rectified. It cannot be rectified by increasing the wages of the artisan. Therefore the only rectification possible is to reduce the comparatively excessive wages—and it will come all the sooner when we give up our paper currency—when people realize that, after all, wages in competitive businesses must determine the ruling rates. Whenever they realize that, I think then public opinion will begin to operate, but until then I don't think it will. That is my view both in regard to prices and wages.

1052. You believe that if South Africa returns to a gold basis—and she is practically at gold parity now—you are going to have a still further decline in the price index number which is already, relatively speaking, lower in South Africa as compared with 1913, than in any other important country in the world?—In the prices which represent manufactured articles, yes. There may even be a rise in agricultural prices.

1053. You have in mind not so much a change in the price level as a readjustment of the prices of different items that make up the index number?—That is right.

1054. That has taken place in recent years in gold standard countries, and in paper-money countries, nearly everywhere?—That is so. We have got to get a readjustment, and I think it will come sooner if we clean up our currency.

1055. You discussed this morning the probable effects on prices and on wages of a return to the gold standard. What about the effects on production, particularly in the more basic industries?—I don't believe myself it will make any great difference. Of course you will get—as Sir Evelyn Wallers has probably been telling you—the dangers that some of the poorer mines are faced with in the event of the premium being lifted and money made dearer here, with consequent increase in working, in so far as money wages at all events are concerned, and probably no great relief in any other way. But I think that is all pretty well discounted now. I think they have got on to a footing where they will probably be able to work quite profitably for some time, unless the Government interferes and adds more differential taxation to them, which, I am told, they are thinking of doing.

1056. A differential tax, if it were differential in the sense that it only applied to the richer mines, would not affect the marginal mines?—No, but it would tend certainly to make gold mining more unpopular, and make it very difficult to open up any new mines—unless you are going to give them a chance of having some phenomenally good result to look forward to. If they don't offer that prospect, as you know mining of all kinds is speculative, you won't get capital to go into mining. Capital needs a hope, at all events, of something phenomenal in the way of results. With such a hope you can attract capital, otherwise not.

1057. When you speak of a marginal mine, just what do you mean?—I mean one that is very near the line where you are not sure whether it is paying or not paying.

1058. There are always marginal mines with you, and every mine must sooner or later become a marginal mine before it becomes a dead mine, and death is as certain for a mine as for a person?—That is so.

1059. A country that shapes its currency policy so as always to protect the marginal mine is likely to have a perpetual job on its hands?—That is quite right. Then in regard to other production, I don't see that it should have any effect. We are primarily a country that produces raw materials.

1060. In the production of raw materials, in the production of agricultural products of every kind, in fact in the production of
very article, aren't there always also marginal producers?—There must be. I have very little knowledge of them, but in the nature of things there must be. But in any case the point is this, they are not going to get anything less for their product in reality. What they have got to do is to adjust to it, in so far as we are on an unsound basis of exchange and currency; they are getting nominally too big a price, in so far as we are unsound.

1061. That is due to the lag in adjustment, which is only a temporary matter, is it not?—That is right.

1062. Any industry that depends for its existence upon the lag in the adjustment of prices and wages to a depreciating monetary unit could only live so long as the process of inflation should be a continuous one?—That is right.

1063. It is not a question of whether your prices are high or low—the benefit comes from the lag; and if you stop the process of inflation for a few months you have the adjustment, and the lag disappears?—Yes.

1064. In other words, if you are going to depend upon this sort of gain for your livelihood, you require the adoption of a policy of continuous inflation until the time—well, there is no limit—until the time you have reached a situation like that in Russia a couple of years ago or in Germany? In other words, if inflation is a good thing in a small dose, it must be a good thing in a big dose?—There is no answer to that.

1065. Or, if it is a good thing in a small dose, it is a good thing probably in continuous doses; and as the world comes to understand it more and more they will discount the doses, and you will have to have increasingly larger doses to get the same effect?—Talking as a practical man now, what I find is that to continue inflation, even in the smallest degree, you are going to continue uncertainty with regard to the ordinary activities, the ordinary industry, of every man. He does not know what is going to be the position in six months.

1066. And uncertainty is something that always must be paid for by somebody?—Precisely.

1067. Your point is that South Africa would eliminate a considerable part of this uncertainty by stabilizing on a gold basis?—That's right. I am clear on that.

1068. How about the influence of this return to the gold basis upon the import and export trade?—Well, it will certainly to my mind reduce the cost of imports. To-day we don't get the benefit of the reduced cost owing to the depreciation of our exchange. We don't get that benefit for the same reason, namely, the uncertainty of how long the rate is going to last. You see, it varies so frequently. It has changed very rapidly in the past, and people never know where they are going to be, and the result is that most people deal with exchange as a profit and loss entry, if that is intelligible.

1069. Don't you think there is enough competition to force the passing on of that benefit to the consumer?—There is plenty of competition if there were any certainty of the conditions continuing. But there is no certainty to-day. We don't know where our exchange will be in any period of time. But if we know we are on the gold basis, I consider that the exchange would be dealt with as in the case of francs and marks, and merchants would simply cost their goods at the net amount in South African money that the goods had cost them. Then the consumer would get the benefit.

1070. I have here a chart of wholesale price movements in South Africa as compared with wholesale price movements in the United Kingdom for the period of 1914-1924. One of the graphs gives the Economist index numbers of prices in the United Kingdom. Another one gives the price index numbers for goods that are imported into South Africa. These graphs seem to show that, on the inflation movement, the prices in South Africa of imported goods moved up very promptly after the advance in England. In other words, shortly after the advance was made over there, people here pushed up their prices, so that the lag was
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very small?—That is well known. The merchants here, when they knew that goods had risen in England, did not wait until they got new goods out. They raised their prices—during the war—for the goods that had actually been imported at a lower rate.

1071. The chart seems also to show that when the rapid decline set in in the latter part of 1920, and since, as prices came down in England, they came down also in South Africa, but they came down here with a lag varying from three to six months?—That is quite right.

1072. Competition seems to force down prices here in a moderate length of time after the decline in Great Britain, but the wholesalers seem to have some power of retarding the decline and of thereby reaping a temporary profit. They have resisted for a few months, and they have gained on the lag. The figures seem to show that competition does force fairly quickly an adjustment, but they tell us nothing as to what the retailer does in selling the goods to the consumer. To what extent, and how promptly, is the retailer forced by competition to pass on to the consumer the benefit that he receives from the wholesaler? Have you any idea as to the amount of lag here?—I think there is a little more lag there—a little longer lag than there is with the wholesaler.

1073. Can you guess it?—It is a pure guess; a couple of months, perhaps; not much more.

1074. You mean there is three to six months between the wholesaler and the retailer and only a couple of months between the retailer and the consumer?—Yes.

1075. Five to eight months then before this benefit reaches the consumer?—Yes. The same thing would hold with rising prices. The retailer would be slower to raise his prices than the wholesaler.

1076. The point was made this morning that this decline in prices that has taken place in general has not applied to any considerable extent to the stores and supplies that the gold mines buy. It was stated that they have received a little benefit from the decline, as pictured in these index numbers; but no very specific evidence was given to prove this?—I take it that means that you were informed that there was a bigger lag in their case than there is in the ordinary way; I mean, taking the ordinary wholesaler and retailer. They find they don't get the benefit so rapidly as the general consuming public does.

1077. Why shouldn't they?—I will tell you why. It is not true, as a matter of fact, in so far as South African products are concerned. Take the mealies that they buy. These mealies they get, as a matter of fact, being big consumers themselves, as cheaply as anybody does.

1078. They buy them in large quantities in a fairly competitive market?—That is right. In addition, another very big item is coal, which is produced locally. They get that also at a very competitive price. But it does apply to the articles which are imported. The reason is this: As you can understand—you have seen one of our mines—it is a continuous process; it goes on from Sunday morning to the next Sunday morning, and it does not stop. As a matter of fact, they daren't allow the operation to stop without a serious loss. So that they have got to maintain a very considerable quantity of the ordinary stores that are required for repairs to and maintenance of their plant: probably a year's supply.

1079. That being true, if they keep considerable stores in advance, wouldn't it follow that, during this long period of rise in prices—when they were supposed to be suffering so much—to the extent that they had stored up in advance they were gaining?—Yes, they did.

1080. That was over a very substantial period?—Yes.

1081. Then, although they gained there and they would lose here on the decline, one more or less would offset the other, considering the periods we have had so far; that is, prices moved up pretty generally from 1914 until about the middle of 1920, and then they declined from 1920 to 1922 or so, and since then have
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been more or less stable. So they have had a longer period of benefit than they have had of loss.—That is so.

1082. Furthermore, I take it, when they buy their supplies abroad they buy them in a fairly competitive market, and likewise in large quantities, and get the benefit of any discounts that come?—That is perfectly true. But that has prevailed all the time, and their methods of buying have not varied. You can take it for granted they do buy in the best market. But the whole point is that we are such a long way from the markets of supply that we are bound to maintain big supplies of everything that is in ordinary use, and they probably have a year's supply of such things ahead. It will take, as you can quite understand, quite a considerable time longer than the lag shown on the chart before any general fall in prices will show to the advantage of the mines.

1083. They would seem probably to have gained more during the period of the rise than they have lost on the fall?—If they could always have bought, but, unfortunately, when prices were rising, they very often couldn't buy; and I know in mining we had to use all sorts of makeshifts in order to keep the mines going at almost any price. These were largely manufactured locally at enormous prices. As you can quite understand, it was like amateurs playing at the game, and very few of these things now survive, or deserved to survive.

1084. During the period in which there was a substantial premium on gold the mining industry and the export trade were supposed to have gained by that premium?—Yes.

1085. Did they pass it on promptly to the labouring man?—Well it gave the working man the opportunity of pressing for personal advantage to himself. I don't suppose there was ever anything voluntarily offered, if that is what you mean.

1086. A certain group of interests gains when the market swings one way, and there is another group of interests that gains when the market swings the other way. It has been claimed that the importer has been gaining lately, and it is often argued that he has not passed his advantage on to the consumer promptly. My question is: When there was a high premium, and the exporter was gaining, was he any better in passing the benefits he obtained by the lag on to the labouring man and to the people from whom he bought local supplies?—I can only say I never heard of any case where they came along and said: “We are doing jolly well; now, here's a bit for you.”

1087. One group of interests benefits on the rise and another group suffers?—That is right. And vice versa.

1088. It isn't exactly becoming, therefore, for the group that has gained on the rise to complain too much of their losses on the fall or for the group that has been gaining on the fall to complain too much of their losses on the rise?—No.

1089. Another point I would like your opinion upon is the probable influence of the return to the gold basis on the Union Government's finances?—Well, in so far as it makes money dearer here, it certainly will tend to reduce the ability of the population to pay taxes. In other words, we make the burden of taxation, if it remains nominally at the same rate, a little bit stiffer. And another thing it does is this: The money market for Union Government loans is mainly London, and if they raise money in London they are not likely to get it any cheaper than they have done in the past, say, round about 5 per cent. If they raise a loan at 5 per cent. at par, say, in London, in order to get the benefit of that money over here, where they want to spend it, unless it is to import such things as locomotives for the railways or anything of that sort where they can just simply buy these articles with the English money—they are bound to lose, and to see their loss, which is the big thing I think to anybody. Why are they bound to lose?—They are borrowing sterling, part of which they use for making payments abroad and part they convert into South African pounds. The South African pound is a more valuable pound than sterling; and if things remained the same it would not matter. But the idea is that things won’t
remain the same, and that when they come to repay that loan in sterling, sterling will then be back to gold parity, and it will actually cost them more to repay that loan than they got for it.

1091. In other words, you could say that for each hundred pounds sterling they borrow under such circumstances they could get £95 South African?—Yes.

1092. There is a difference of 5 per cent. By the time this loan matures, say, twenty-five years from now, let us assume that the value of a pound sterling is equivalent to that of a pound South African. So they will have to pay back not £95 South African but £100 South African?—That is the idea.

1093. But that 5 per cent. difference would be distributed over a substantial period of years and would, after all, be a very small item each year?—Yes.

1094. That also assumes that in all cases South Africa would borrow in sterling and not borrow, say, New York or the Netherlands or some gold market?—Yes.

1095. Then there is another offsetting factor, is there not? There has been, we are told, quite an expectation in a good many circles lately that sterling is going to return to parity very soon. The result was the speculation of it in the United States and I understand there has been considerable evidence of it in other countries, of quite a speculative demand for sterling and for sterling securities in the expectation of realizing not only the interest or dividends but an advance in the gold value of the principal through an increase in the gold value of the monetary unit?—Yes.

1096. To the extent that that is true, there is an influx of capital into England and an increase in the supply of capital in the English market. On the other hand, when any one is contemplating borrowing nowadays, if he thinks of borrowing in the English market he says: "I am borrowing paper pounds with a pretty good prospect that I will have to pay back sovereigns. If I do, I lose materially through the appreciation of the pound." The result is he frequently turns to other markets to avoid that risk. And here is a force that lessens the demand for funds in Great Britain?—That is so.

1097. If you have one force that is increasing the supply of funds in Great Britain and another force that is reducing the demand, the natural result is to make the interest rate on loans in that market materially lower than they would be in a market where you didn't have those forces operating?—That is so.

1098. It may very well be, therefore, that, as a result of that fact, South Africa, in borrowing in the London market, would borrow at a lower rate of interest than she could borrow elsewhere, because she would be including in her interest rate under the guise of interest an extra charge on the principal?—Yes; I think that is true. As a matter of fact, I can't give the actual facts, but I believe there was talk of borrowing in New York, but it was found that money was dearer there than in London, with all the risks, so they went back to London.

1099. It should be, should it not, if you allow for this change. It should be dearer by enough to compensate for that prospect?—Quite right.

1100. In recent years New York has been lending in foreign markets much more than she did a few years ago, and I suppose she has been lending in foreign markets recently considerably more than London has?—Yes.

1101. In a considerable number of the loans that have been made by London in foreign markets recently, a substantial part of the funds has been drawn by London from New York, so that it would seem that the probabilities are, when you take everything into account, that the London market cannot be much cheaper than the New York market or you would not have this situation?—I presume so.

1102. If South Africa returned to the gold standard independently of Great Britain, in your judgment would the premium on South African money tend to the export of capital
from South Africa and, conversely, hinder capital from flowing into South Africa; or, on the other hand, would the return to the gold standard attract capital to South Africa? A few years ago, I believe in 1920, it was claimed when the exchange here went to a very substantial discount that there was a great outflow of capital from this country to take advantage of the high value of the South African pound. In your studies have you seen any evidence of such an outflow, and, if so, what is the evidence and to what extent did it take place?—The only evidence that I have been able to ascertain is oral evidence on the part of bankers and on the part of stockbrokers. Mr. Greig, if you ask him about this, will tell you—he has told me as a matter of fact—that he knows of a great many South African securities which were bought back by South Africans at that time, and the sellers took their money back to England to take advantage of this rate. I have heard from bankers that they know of a great amount of money—they have never put any figure on it—but they allege that a good deal of free money left South Africa at that time in the hope of coming back again when the exchange pendulum had swung in the other direction. They happened to be quite right, the pendulum did swing back; but it need not necessarily have done so. The experience of the banks in the year 1920 is quoted to support the theory that an exchange rate of any magnitude adverse to sterling will result in such a loss of capital from South Africa that the banks could not carry on business, and in the loss of all the gold held by South Africa as currency or as bullion for the security of the note issue. In 1920 the exchange rate between South Africa and England fluctuated as follows:—

<table>
<thead>
<tr>
<th>Prior to January 21, 1920</th>
<th>7/8 per cent. discount.</th>
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<tbody>
<tr>
<td>January 23, 1920</td>
<td>4%</td>
</tr>
<tr>
<td>March 8, 1920</td>
<td>5%</td>
</tr>
<tr>
<td>April 6, 1920</td>
<td>6%</td>
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<tr>
<td>May 1, 1920</td>
<td>8%</td>
</tr>
<tr>
<td>June 15, 1920</td>
<td>6%</td>
</tr>
<tr>
<td>July 16, 1920</td>
<td>2%</td>
</tr>
<tr>
<td>July 20, 1920</td>
<td>8%</td>
</tr>
<tr>
<td>August 4, 1920</td>
<td>Par.</td>
</tr>
<tr>
<td>September 1, 1920</td>
<td>4 per cent. premium</td>
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<tr>
<td>October 7, 1920</td>
<td>1%</td>
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<tr>
<td>November 4, 1920</td>
<td>3%</td>
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<tr>
<td>December 30, 1920</td>
<td>4%</td>
</tr>
<tr>
<td>January 6, 1921</td>
<td>2%</td>
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<tr>
<td>January 31, 1921</td>
<td>1%</td>
</tr>
<tr>
<td>February 21, 1921</td>
<td>4%</td>
</tr>
<tr>
<td>March 5, 1921</td>
<td>Par.</td>
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The bank deposits likewise varied considerably within the same period. They were 78 millions in December, 1919, to which figure they had grown from 58 in April, 1918. In January, 1920, they jumped to 92 millions, and remained round about that figure until May, 1920, when they began to fall. In December, 1920, they were back to about the figure of the previous December. Now, if the fall in deposits from January to December, 1920, be proof of a loss of capital, the jump in January, 1920, is equally proof of a sudden access of capital. But, as a fact, the fluctuations in bank deposits do not prove anything of the kind in my opinion. There was probably some transfer of free money from this country to England in order to take advantage of what the operators expected would be a temporary phenomenon, but the extent of this transfer it is impossible to arrive at. If we look at the external trade figures, one is entitled to say that the transfer could not have been very great. During the first half of 1920 the imports into South Africa rose steadily, and the total for the calendar year was double that of 1919, the excess being 52 millions. This fact in itself is justification for the deduction that the outflow of money in 1920 mainly went to pay for goods imported. Furthermore, the growth in bank deposits synchronized with a rise in the general price level, while a sudden and heavy fall set in during 1920. This fact has a direct bearing on the deposit figures.
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1103. Isn't it true that in 1919 and early in 1920 it was very difficult in this country to get foreign orders filled?—That is true.

1104. And that people in ordering goods abroad would often order considerably more than they wished with the expectation that a part only of the goods ordered would arrive?—Yes.

1105. But when the great slump came in the middle of 1920 the people on the other side were very glad to fill orders, and fill them rapidly. The result was that there was a great influx of goods into South Africa which had been previously ordered at prices which were no longer prevailing abroad—an attempt on the part of the exporter on the other side to realize the maximum prices as long as possible?—That is true.

1106. Furthermore, that when the slump came the demand for South Africa's export products fell off?—Yes.

1107. There you had the situation of a great influx of commodity imports at a time when commodity exports were naturally tending downward, which of course would call for an outflow of funds with which to pay for the difference?—Yes.

1108. This outflow of funds at that time was then, as I take it, contemporaneous with a shift in your trade balance, and it represented to a considerable extent the payment for these goods that were brought in. This heavy import of goods filled up the stocks of the merchants to a very great extent; it meant heavy inventories at high prices; and the year after that, namely 1921, imports fell off very decidedly, and exports, while they were not up to normal, were relatively much higher than in 1920, and so you had a change back in the other direction?—That is so.

1109. If you take the period of the years 1920, 1921, and 1922 as a whole, instead of just taking a small section of it, you would not have much evidence from those figures that there was any considerable export of capital. Is that true?—That is perfectly true. I cannot find any evidence in these figures of the export of much capital anyway.

1110. The statement which I have just made as applied to South Africa, I based on the table which the Government has furnished here of import and export statistics by months over a period of years. I have visited most of the South American countries in the last two years and have been particularly interested in this situation in South America. And in every country that I have been in, I found that this same thing happened: a very great influx of imports, with difficulties of paying for them; therefore an apparent efflux of capital. One naturally asks the question, if figures like these represent an outflow of capital, just where was this capital going to?—The only outflow of capital that I see is this, that South Africa lost what you would call the excessive portion of the price of the goods that were imported. The merchant and the public bore the loss between them; the public in so far as they bought the goods at a high price and the merchants the rest. They lost that excess price to the exporting country.

1111. This decline in prices that took place in South Africa was taking place all over the world, in countries that were on the gold standard or nearly on the gold standard as well as in most paper-money countries?—That is true.

1112. If the price level came down here, it came down as well in all these other countries, except those that were inflating very decidedly at the time. So the relative position of South Africa was not much changed?—It was not. We were bound to lose the inflation in any case.

1113. I have here the figure for South African wholesale prices based on 1913 as 100. It shows that in June, 1920, the index number was 232 and that in September, 1921, it was 108. There is a tremendous drop, a drop of over 40 per cent. Now, suppose you just measure the contraction that you have in bank deposits and in other items which are used to prove that there was a great export of capital, suppose you reduce that in the proportion of 2/3.
to 138 for that time to cover the increased value of the pound in terms which you are measuring all values, in that case would you not in this way explain a very substantial part of this supposed exportation of capital?—You would explain more than the whole of it, because the bank deposits did not fall to the same proportion in 1921, as far as I remember.

1114. In that case this alleged heavy exportation of South African capital seems to be a myth?—I was not able to find, when I looked into that question, any evidence that would justify one saying it could be proved from these figures.

1115. Even if it were true that there was a considerable exportation, it would have come at a time when there was a world-wide collapse of prices after the greatest rise in prices probably that the world had ever seen, over a short period of time, and then the most phenomenal collapse in prices the world has ever seen at a time in which everything was thrown out of joint the world over. An experience of that kind, which has happened only once in history, would hardly be a safe basis for inferring what is going to happen in the future, or as a basis for your currency policy in the future?—No. And then there is the ordinary contention. I believe in it anyway. I cannot see why you should feel at all unhappy about capital going out of one country into another, or vice versa, because capital will come back whenever we have anything attractive to offer it. We have not been importing capital into this country for some little time for the reason that we are not offering to capital any profitable enterprise that will induce it to come.

1116. Do you think that the stabilization of exchange with gold would attract capital to this country?—Certainly; in the first instance, at all events, from countries like England. I certainly think it will. And I think it will attract capital in so far as we have got schemes to interest them with, to give them some hope of benefitting by; it will attract capital permanently from any part of the world, including America, which is on the gold standard. The whole question is, what schemes, what enterprises, have we got to offer to the outside world to ask them to come along and finance for us? If we can show a sufficient inducement to them in the shape of profit, it will come all right. And it does not matter whether all our free money were to leave us to-day. That would make money dearer here and therefore would tend to reattract capital.

1117. You don't see any signs of any substantial importation of capital here in the last few years?—No.

1118. Has there been any substantial increase in white immigration?—No. I think the figures show that there has been very little immigration into this country.

1119. (Mr. Middleton.) Figures have been given for capital brought by settlers. but I think they may have been overstated?—I am talking of the immigration of people into this country. There has been very little of that.

1120. (Mr. Pearsall.) There has been an adverse balance?—I did not know it was as bad as that. Whatever there is is really insignificant so far as people go, and I believe it is the same thing so far as capital goes, except for Government borrowings and, perhaps, municipal borrowings.

1121. (Mr. Middleton.) There is very little capital coming in for mining development?—Hardly any. The only instances I remember recently are West Springs and the New State Areas. Their capital has come from abroad in the main.

1122. (Professor Kammerer.) If being tied up to sterling is a substantial advantage to South Africa's trade with the United Kingdom, as it is alleged to be, would you not expect that an increasing proportion of South Africa's trade, during the recent years in which the South African pound has been tied up more or less loosely with sterling, would be with the United Kingdom and a decreasing proportion with other countries; especially in view of the additional advantage given to trade with the United Kingdom
Mr. Alexander Aiken.] by Imperial tariff preference? British trade with South Africa has the advantage of being tied up with sterling and the additional advantage of Imperial tariff preference. If there is such a large advantage in having the South African pound tied up with sterling, wouldn't you expect an increasing proportion of South Africa's trade to be with the United Kingdom?—I suppose one would. But I have no faith in that argument. I don't think the currency connexion does help trade between this country and England, and I don't think it will affect the trade between this country and England if we can clean up our currency before they do.

1123. I have just been looking up some figures on that. I have here a table based on figures given in the League of Nations memorandum on "The Balance of Payments" (page 403). This shows the percentages of South Africa's visible import trade and visible export trade each year with different countries from 1910 to 1922. The table shows, roughly speaking, that the percentage value of imports into the Union from the United Kingdom was 60.83 in 1910, that it dropped as low as 46.89 in 1919, and now stands—1922—at 56.45. In other words, the percentage of the value of imports into the Union from the United Kingdom had declined slightly since 1910. The percentage value of imports into the Union from the United States was 8.9 in 1913, rose to 14.4 in 1921, and then there was a reaction the next year to 11.3. While the percentage with the United Kingdom has declined, the percentage with the United States has increased. I have likewise here figures showing the percentage value of exports from the Union to the United Kingdom and to the United States. The figures for exports from the Union to the United Kingdom dropped from 88.58 per cent. in 1910 to 73.13 per cent. in 1922. They stood at 88.67 per cent. in 1913. The percentage value of exports from the Union to the United States was only eight-tenths of 1 per cent. in 1914, and in 1922 was 3.1 per cent., which is about four times the 1914 percentage. So there does not seem to be from those figures, superficially viewed at least, any evidence that tying up with sterling has increased the proportion of trade with the United Kingdom. It is furthermore true, I suppose, that the great bulk of all these exports from South Africa in recent years have gone to the United States. I find that for the thirteen years 1910 to 1922 inclusive, the average annual exports, including Government stores but excluding specie, was 68.3 millions of pounds, of which the annual export of gold was 31.7 millions, or 55 per cent., and of diamonds, 7.1 millions, or 10 per cent., making over those thirteen years 65 per cent. of the total visible exports represented by gold and diamonds. I understand that during those years practically all of the gold has found its way to America, and something like two-thirds of the diamonds London having been only an intermediary market?—I believe that is correct.

1124. What is your judgment in regard to the evidence of such figures on this problem?—It confirms my own ideas, namely, that the tying up of our currency to sterling does not help trade between this country and England, as far as I can see. I don't see why it should. We will just send to England what goods we have got to sell that they will give us the best price for. We will send them elsewhere if we can get a better price. I think all these changes in the percentage of goods leaving South Africa for other places, or coming from other places to South Africa, can be accounted for entirely apart from currency matters. Take, for instance, imports from America: one large item in recent years has been motor-cars. The American motor-car has pretty well, until just very recently, driven the English car out of the market. Now that in itself means a very big sum of money. I don't know how much it is, but it must run into a very large amount in a year. If those goods are all coming from America instead of England, that in itself is going to make a big turnover so far as South African trade goes. And so, if you analyse the list of articles imported and exported, you will rapidly arrive at the conclusion which I have come to, namely, that currency has nothing
whate’soever to do with the tendency of whence goods come or where they go.

1125. 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? It is sometimes said that if South Africa should tie up with gold, it would cause the South Africa-sterling exchange rate to fluctuate continually and rapidly just as the cross-rate between London and New York fluctuates at the present time; and that by tying up with gold South Africa would obtain a very unstable exchange with its principal market and the principal place from which it buys its goods. What is your judgment on that question?—There is no question to my mind that there will be more fluctuations in exchange, but that will not arise through action on the part of South Africa. It will arise through the currency in England, through sterling either appreciating or depreciating, and that is beyond our power to rectify.

1126. Isn’t sterling appreciating and depreciating right along now in terms of gold and in terms of goods? Hasn’t it done so for the last few years?—Yes, it has been going up and down.

1127. Your currency has not been convertible on demand into sterling during this time?—Well, our currency has been convertible pretty well.

1128. Only at market rates, which vary from time to time? There has been no legal convertibility on demand at par or at any other fixed rate?—They varied a little bit. But except in the early part of 1920 and just recently, I don’t think they would average more than 1½ per cent.

1129. The banks’ buying rate for T.T. varied in 1920 from 4½ per cent. premium to 8 per cent. discount; in 1921, from 4½ per cent. premium to 1½ per cent. discount; in 1922, from 1½ per cent. discount to 3 per cent. discount; in 1923, from 3 per cent. discount to 1½ per cent. discount; and in 1924, from 2½ per cent. discount to 3½ per cent. discount. That shows that you haven’t been tied up directly with sterling as Egypt has, rising with sterling when it rises and falling when it falls?—That is so.

1130. It furthermore seems to show that the banks fixed the exchange rate and they hold it often for months at a time without any change despite frequent and often pronounced changes in the sterling-dollar rate and in the British price index numbers?—That is also true.

1131. If the banks can and do hold the South African rate fixed for long periods of time despite the ups and downs in the value of sterling, when you are not on a gold basis, why shouldn’t they hold it against those ups and downs when you are on a gold basis, say, within the limits of the gold points, and assuming that there is no arbitrage business carried on through roundabout exchanges, as you have none now?—Don’t you think you would have? Don’t you think we would immediately have speculators in the exchange if we didn’t keep our exchange rate at all events approximately similar to the New York exchange rate?

1132. There is practically no exchange business done in South Africa directly with New York. Your only method of doing business with New York is through sterling, and with the particular banks that control the situation and agree among themselves on rates?—I am only saying we would have that speculator, whether American or other, coming into the market and either shipping or buying gold from us through London. He cannot get the gold now. We have an embargo on gold.

1133. Hasn’t the embargo been released on gold here?—There is no embargo on gold bullion now, but gold coin is not obtainable. Anybody who gets sterling credits in London can buy in London the right to obtain in New York all the gold he wishes to pay for?—But he can get it just as cheaply in London as he can here, as the mines here will only sell to an American buyer for an amount of South African money which would be equivalent to what they would get if they sent it to London.
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1135. If your mines insist upon selling only to their own people in London, and if the only exchange that is handled here is sterling exchange, and if that exchange is handled only by two or three banks that work in harmony with each other, and if they continue to do that sort of thing in the future, why, as long as sterling remains off the gold basis so that the gold points are not effective between here and London, aren't you in a situation wherein— I won't say it would be as easy but would be less difficult than many people assume—to maintain your exchange rates more or less stable with sterling; that is, with fairly infrequent changes, even if you go on to a gold basis?—I don't think the changes would be very frequent, but they would be more frequent in the future than they have been in the past. Small variations, say, in the dollar rate of exchange on the London market would not really affect us here: they would have to be of greater magnitude before we need take any notice of them. It is only when the difference became so great that it induced a flow of gold one way or the other that there would be any necessity for us to deal with the exchange question at all. That would come oftener if sterling goes, as she has gone the last eighteen months, rapidly up and down.

1136. But it would fluctuate continually with the sterling-New York cross-rate?—No, not for small differences. These small differences would have no effect.

1137. To what extent would these increased fluctuations that you think you would get in sterling exchange hamper foreign trade in this country?—Not at all. I can't see how it could. If we can deal freely with America to-day, what is to hinder us dealing with England? We are dealing with America now; we have an inconvertible currency, they have a gold standard. There is nothing to hinder us having as free dealings with England, after we are on the gold standard, as we have to-day with New York. Our international settlements are effected through London.

1138. The sale of your principal products, so far as they go to America now, involves one unstable exchange any way, and they would only involve one if you were stabilized with gold?—Yes.

1139. To what extent do the banks here offer facilities to exporters and importers to eliminate losses from the risks of exchange by enabling them to make contracts for forward purchases and forward sales, as is done in other countries?—They don't do it at all. Forward exchange I don't think they deal in. I have never heard of them dealing in it.

1140. (Mr. Middleton.) I know of one case through the Reserve Bank?—The Reserve Bank may have done it. I don't think the commercial banks have done it.

1141. (Professor Kemmerer.) Is there any reason why the commercial banks in South Africa should not offer such facilities as Singapore, Hong-Kong, or other places, where operations are carried on in exchange that are more or less unstable?—There is no reason why they should not do it. They could easily cover themselves.

1142. That does not involve any appreciable risk to a bank, does it: the bank hedges?—Precisely.

1143. In that way the exporter and importer and the bank are protected?—Yes.

1144. If South Africa should return to the gold basis 1st July, 1925, independently of Great Britain, what special measures, if any, should be taken to enable her to maintain gold payments?—No special measures. I don't know what measures may be in your mind when you put the question, but I cannot conceive of any that are necessary if the banks and the Government look after their own business.

1145. Do you think there is any danger that South Africa would be drained of her gold?—No, I don't see any, any more than we would be drained of our wheat or our maize. There is no difference that I see.

1146. If your mealies tend to go out in any substantial quantities they continually get dearer here, and it soon pays to reduce
your export of mealies and export something else with which to pay for your imports, or to reduce your imports, and the same thing would apply to gold?—Exactly.

1147. An increase in the value of gold here would find expression in a lower price level, lower exchange rates, and more tardily, perhaps, in higher discount rates at your banks?—Oh, yes; they will have to look after that. They will be the custodians of the gold. If they find their gold going they will have to look after it. I mean, it is their job to maintain the convertibility of their currency. They have got to watch the flow of gold either inwards or outwards.

1148. Some time ago you suggested, I believe at the 1921 Gold Conference, that South Africa, in returning to the gold standard, should return by steps somewhat along the lines provided in England by the legislation of 1819. Do you think it would be advisable at the present time to adopt any such method?—No; one step is sufficient.

1149. The one step you would need to take now is less than any one of the steps proposed at that time?—Ever so much less.

1150. Do you think it would be advisable, if the Government should decide to return to the gold basis 1st July, to give a definite announcement to that effect to the public now, or should the Government just let the matter rest because provision is already on the statute books?—I think they ought to state plainly that they are going to allow this inconvertible paper currency to run out on the 30th June. The reason is simply this. There has been so much talked, so much spoken, about this matter, and every one is waiting for a definite statement from the Government to say that they are not going to extend this Act again but to allow it to run out. If the Government will only say that, I am sure everything else will settle itself, and the Government don't need to do anything. But I think they have to say that plainly, and the sooner they do it the better for everybody. The people it will mainly affect will be the banks, and they ought to be told plainly: “You must put your house in order: we will be on the gold standard on the 1st July next.” If they are given about six months' time they can do it.

1151. Do you think provision should be made positively to withdraw from circulation the gold certificates in connexion with the arrangements for returning to the gold basis?—I don't altogether see why you should withdraw the gold certificates. To-day I think they are our only legal tender. What I think ought to happen is simply this: the gold certificates have got to go out of existence in any case if we go back to the gold standard on the 30th June. If they are going out of existence, why not put them out of existence at once, but then make Reserve Bank notes full legal tender.

1152. Isn't it a dangerous thing to permit any institution to pay its own debts in its own promises to pay?—Well, it is, theoretically. I don't see any real danger in such a temporary arrangement.

1153. If you make Reserve Bank notes unlimited legal tender for the Reserve Bank, and if a depositor came to the Reserve Bank and said, “Cash this cheque, I want funds,” the bank might offer him notes, and if he would say, “I want gold,” the Reserve Bank would say, “These notes are unlimited legal tender according to law. We don't want to have you pay gold.” Would not that give the Reserve Bank the power to suspend specie payments whenever it might wish to do so?—I am only suggesting that you should get over the hiatus, the interregnum between now and the resumption of gold payments. I want you to make gold itself the sole legal tender immediately we go back to gold; but until we get back to gold, making Reserve Bank notes legal tender seems necessary in cases to get rid of these gold certificates, which serve no purpose except that of being legal tender.

1154. They tell us that there are only a few, about £400 of them in circulation?—I think that is about true so far as the public are concerned. It makes the thing ridiculous. I think the sooner these gold certificates are called in the better. It ought definitely to be stated that when we resume gold, then gold alone is legal
tender in this country, as it used to be. If there is any risk that Reserve Bank notes would be permanently made legal tender for all purposes, then I certainly think it would be far better to continue the existing condition of things until we get back to the gold standard, but then immediately to cancel all the gold certificates; call them in, pay them out, and make gold alone legal tender, as it ought to be.

1155. It has been proposed in certain circles that the Union should mint certain fiduciary gold coins; in some cases 10s. denominations and in other cases 5s. denominations have been suggested. One proposal has been that these coins should be 80 per cent. gold and 20 per cent. alloy, and to be made limited legal tender. We would like to have your judgment as to the advisability or inadvisability of such a plan?—Irrespective of the proportion, I dislike the thing intensely. A 10s. piece would be very useful, so would a 5s. piece. But I want the actual gold coin. I want no fiduciary gold coin.

1156. If it is all right to have a crown piece in silver fiduciary money, why not have a 10s. piece in gold fiduciary money?—If we are on a gold standard I want all gold to be of the same value.

1157. A silver coin of the value of 10s. would be too cumbersome?—I would not have a 10s. piece in silver. But I want the half-sovereign, a full gold piece, to be the value of half a sovereign.

1158. Just make clear what is your objection to this proposal?—Largely it may be prejudice, but mainly it is this: I don't mind a fiduciary silver piece because, after all, if the basis of our currency is gold, then silver must be only nominal currency and strictly limited. But when you have got gold as the basis of your currency, then I think we really stultify ourselves if we issue what is only nominally a gold piece for use inside the country when it is not full value.

1159. Do you think that if the Government should realize, as it would, a substantial profit on such coins, there would be any danger that the Government, in order to obtain this profit—all Governments want money—would issue these coins to excess and thereby cause a dangerous dilution of the gold content of the currency?—They have attempted to issue excessive quantities of fiduciary coins before. It always rectifies itself. The coins come back if they are not wanted when you have a free market, and when you have gold as the basis of your currency, which you can demand for any other currency you bring along.

1160. If you issue too many of these gold coins they could not go out of the country; they would merely drive out the full-weight gold coins. And assuming a given quantity of full-weight coins in circulation, and a given quantity of these fiduciary gold coins, the more of these you issued above a certain point the more full-weight coins you would drive out, and the weaker would be your circulation?—That is true.

1161. There would always be the temptation, would there not, on the part of governmental authorities, to go to the maximum limit possible in issuing these coins, because their issue yields a good profit?—They have always done so with silver. They have always tried to force silver out; sometimes they have succeeded in forcing a lot out. But there is another reason why I dislike the idea of a fiduciary gold coin. Why should we, a gold mining country par excellence, for instance, think of diminishing the use of the metal? We want to encourage its use, and we want above all to increase its value if we can.

1162. Do you know of any other country in the world that has had a fiduciary gold coin?—I haven't heard of any.

1163. You don't think it would be a good idea for South Africa to give this invention to the world?—No, I think it would be a very bad thing.

1164. (Mr. Middleton.) Are you in favour of a larger silver piece?—Not a 10s. piece.

1165. A 4s. piece?—That might be useful unless you make it too heavy; something like the dollar.
1166. (Professor Kemmerer.) In connexion with this question of returning to the gold basis, what functions do you think the Reserve Bank should perform?—I don’t want them to do anything except look after their own position and that of the banks that they have to control.

1167. Have they no duty directly to the South African public?—I think not, not that I remember.

1168. Suppose the banks in this country should charge excessive exchange rates, or should demand an excessive margin between buying and selling rates, or should demand what the Reserve Bank would consider excessive discount rates: is it your judgment that the Reserve Bank should have nothing to do with such matters, or that the Reserve Bank, in the interests of the general public, should come in and operate in the open market so as to force the other banks to give the public what might be considered a fair deal?—They are doing that to-day. They have published a discount rate lower than that of the other two banks. I know also they have discussed going into the exchange market; and they can always bring pressure to bear on the other banks by doing that kind of thing that is part of their functions.

1169. You think it is proper for them to go out into the open market and do those things if it is necessary to enforce rates that they consider in the interest of the general public?—I haven’t the slightest objection to that.

1170. Do you think it has a real duty to the public in that regard?—Yes, I should say so.

1171. Are there any further suggestions you wish to make?—I haven’t thought of anything further. I confined myself simply to dealing with the questionnaire you gave me.

1172. (Mr. Middleton.) The questionnaire does not cover the banking field, except incidentally?—I don’t want to enter into that unless there is any particular point you wish to ask me about.

1173. You are a director of one of the banks?—Yes, but that does not influence the views I have been expressing.

Mr. Basil Hale Warner (examined).

1174. (Professor Kemmerer.) What is your position?—Assistant Commissioner of Swaziland.

1175. How long have you been in Swaziland?—Twenty-three years.

1176. You are pretty familiar with the conditions there?—Yes.

1177. In connexion with the problem before this Commission, as to the desirability or the undesirability of returning to the gold basis 1st July next, we are interested in getting information concerning currency conditions in Swaziland, the attitude of the natives towards a gold currency and paper currency, and the extent to which gold is hoarded there. We would like you to give us in your own words an account of the conditions as you find them there?—My chief dealings with natives in this connexion are the collection of native tax and the paying out of deferred pay to boys who return from the mines. The natives pay quite a third of their tax in gold.

1178. Is there any premium given on the gold, or is it accepted at par?—At par.

1179. When you pay them, is it at par?—At par. One of their chief objections to the note is the loss that they suffer in accidents, such as the burning of huts. That is a very common occurrence down there. They hoard their money. They have no system of banking. They either bury it under their huts or they even keep it near the thatch or in the thatch, where they keep their assegais.
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The result is, as so frequently happens when the huts get burnt, a very common occurrence in the winter, they lose their paper entirely; and they come and complain that all their money is gone, burnt. Whereas in the old days, when they had nothing but gold, an accident of that sort would not mean a total loss. I have often had these fellows come up with a molten sort of mass, which meant so many sovereigns. I have been able to get a fair amount of money in return for them. As a rule, they get about £1 for the molten coin. A burnt note is an entire loss. That is what they feel very hurt about.

1180. Is there any loss from insects?—Oh, yes; it is a great country also for white ants. They destroy lots of things, including bank-notes.

1181. One difficulty with paper money with natives in some of the countries I have been in is that the money which they carry on their bodies becomes very insanitary; whereas metallic money does not to any great extent become insanitary. With the metal there is said to be an acid action that kills the disease germs?—That is the case. Also there are a great many rivers to cross, and when they carry bank-notes on their person the notes deteriorate very rapidly indeed.

1182. They swim the rivers and wade them?—Yes. Notes sometimes turn up in pulp.

1183. Do you think the natives would welcome a return to the gold standard or not?—I am certain they would. They still grumble a great deal about the notes that we issue. They would appreciate it greatly.

1184. Would the native merchant or dealer give a premium on gold in terms of notes?—We really have no natives as dealers.

1185. Is it possible for a person who has a number of sovereigns to obtain a premium on them in Swaziland in terms of notes?—No, they are absolutely at par.

1186. The native's preference is not strong enough then for gold to induce him to give a premium for it?—No.

1187. (Mr. Middleton.) That did not always apply, did it, when coin was being sent to Mozambique for export? Didn't traders endeavour to get the coin?—Yes, that is right. They used to get it over to the Portuguese border. There they would give more.

1188. (Professor Kemmerer.) Is that true now?—In my experience I don't think it is. In the old days it certainly was.

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1199. And the fact that the bad money is not tendered, that it does not drive the good out, would be largely due to the simplicity of the native. He takes money out of his hoard and pays?—Yes, he is a very simple man.

1200. (Professor Kemmerer.) That is the principal cash payment he makes?—Yes.

1201. Do they live largely in towns or in small isolated communities?—Isolated communities. They have small kraals. A large kraal would consist of fifteen or twenty huts. Most of them as a rule are small kraals of three or four huts. They are scattered all over the place. Some of the big chiefs have bigger settlements and bigger kraals, but there are very few of them.

1202. They have few cash payments to make, and when they make them they take the money out of their hoards?—Yes.

1203. What do you conceive the attitude would be of the natives towards a fiduciary gold coin? Suppose the Government should make a gold coin of 10s. containing only 80 per cent. gold. Do you think they would accept that just as well as they do the full-weight gold coins, or would they discriminate against it?—I don't think they would discriminate at all.

1204. (Mr. Middleton.) From their connexion with the mines they know what gold is like?—Yes.

1205. Would there not be a tendency for them to prefer the real article?—They might query the token, but I don't think it would make very much difference to them.

1206. Have you come across cases where the natives have been imposed upon by traders? Section 32 of the Currency and Banking Act of 1920 was, I believe, introduced partly to protect the native?—I have not come across any cases.

1207. (Professor Kemmerer.) From what you say it would appear that Swaziland really has never gone on the paper money basis, but is still on the gold basis?—That is right.

1208. Is there any sign that the proportion of gold in circulation has been declining over recent years or months?—I could not say.

1209. (Mr. Middleton.) Have you always had a sufficiency of gold?—We have never had a sufficiency. We have had to use a good many notes.

1210. You would, in fact, use more gold if gold were available?—We would use more.

1211. And fewer notes?—And fewer notes. They always prefer gold.

1212. (Professor Kemmerer.) If gold were readily available so that any one could have gold or notes as he preferred, do you think the notes would pretty largely disappear from circulation in Swaziland?—I am sure of it.

1213. (Mr. Middleton.) Would that apply to all native territories, in your judgment?—I think it would apply to all native territories.

1214. (Professor Kemmerer.) They take the notes only because they are more or less forced upon them?—Yes. They were very chary indeed at first. We had great difficulty in persuading them to take them at all.

1215. How did you succeed?—I think the purchasing power was explained to them, that it would purchase the same as the sovereign. I think they trusted us really—a fatherly Government.

1216. In the Philippines some time ago, when we wanted to introduce a reduced-weight silver coin, we knew the native population would more or less object to it. We encouraged its introduction by making it readily exchangeable for the nickel and the copper coins with which they had long been familiar and whose value they fully appreciated. And we provided offices in a number of places where they could bring in their new silver coins and get the older nickel and copper coins in exchange for them. When they saw that the underweight pesos were the equivalent of the coins with which they were familiar, they learned the lesson pretty quickly. You have not done anything like that?—No.

1217. (Mr. Middleton.) In regard to silver, do you think the natives would favour a slightly larger coin than the 2s. 6d. piece—say a 4s. piece?—I think they probably would.
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1218. You think they would like it?—Yes.
1219. They might have hoarded it to some extent?—Yes. They are very keen on the half-crown. It is a large coin. The half-crown is very largely used in Swaziland.

1220. (Professor Kemmerer.) Is the half-crown preferred to the shilling or the florin?—They always prefer the half-crown, the larger coin.

1221. (Mr. Middleton.) You have no banking laws in Swaziland?—No.

1222. (Professor Kemmerer.) Do you have any banks?—Yes, we have the National Bank.

1223. A branch of the National Bank?—Two branches.

1224. (Mr. Middleton.) The notes circulating there, are they dated in Swaziland, or dated somewhere else?—(Witness produces a National Bank note, issued from Salisbury, Rhodesia.)

1225. (Professor Kemmerer.) Could you spend that note there and would it be accepted at par?—Yes.

1226. There is no law preventing the banks in the Union accepting such notes. They may not, however, issue them?—I believe that is the case.

1227. (Professor Kemmerer.) If a bank here receives that note, it cannot reissue it?—No.

1228. The governing section of the Currency and Banking Act is number fifteen, is it not?—Yes.

1229. (Professor Kemmerer.) There is nothing to prevent a bank here that wants to keep these notes in circulation from sending them into the Protectorates and encouraging their circulation over the borders?—No.

1230. (Mr. Middleton.) The Union legislation does not apply to the Protectorates or to South-West Africa?—I think not.

1231. (Professor Kemmerer.) Is there anything more you can tell us about the natives and their dealings that you think would be helpful to us? Is there any clipping of coins there?—No, they are not up to that. They are much too unsophisticated.

Sir Evelyn Wallers, K.B.E. (examined).

1232. (Professor Kemmerer.) What is your position?—President of the Chamber of Mines and Chairman of the Gold Producers' Committee.

1233. Are you speaking for the Chamber of Mines and the Gold Producers' Committee or are you speaking for yourself personally?—Both. I am speaking for the Gold Producers' Committee and the Chamber.

1234. Your testimony then is as the representative of these two groups?—The representative of the Gold Mining Industry; yes, that is the position really. I would like to say—I hope you will not think it discourteous—that I have had no time to prepare answers to this questionnaire. I have looked at them and read them. I can answer verbally the questions, I think. But I am sorry I have not had the time, nor the particular staff on this work, because they have been engaged on Commissions and Conciliation Boards for weeks past.

1235. What we want from you is your message to the Commission with reference to this very specific problem that is placed before the Commission, namely, the question of the advisability of returning to the gold basis 1st July next, regardless of what action may be taken in the meantime by Great Britain. We want to give you as free a hand as possible in giving your judgment on that question. This questionnaire was not meant to tie any one down, but merely to suggest the general line of questions to which we would like to have answers?—Perhaps I could make the position clear if I read a short note. I think it was written some time ago. The real point to which we had given consideration is the effect of a return to the gold standard in this country independently of Great Britain on our particular industry, gold production. I would not pretend for a moment to be a real student of world-wide currency matters. I have read about them, but
what I have concentrated on to some extent is this particular position here. The notes I have here were written some little time ago when the premium existed. To-day with the present price of gold, less the bank exchange rates, there is no premium to the producer. The following note on the effect on the mines of a return by South Africa to the gold standard, independently of the United Kingdom, was written some time ago, when gold was at a premium of 10 per cent. in British currency and the rate of exchange charged by the banks for transferring funds from London to Johannesburg 2½ per cent. At the present moment there is—temporarily at least—practically no net premium, the price of gold being 88s. 6d. per ounce, and the exchange rate charged by the banks 3½ per cent. The mines are now obtaining very much the same as if they handed their gold to the Pretoria Mint to be converted into sovereigns.

1236. The banks give the mining industry a preferential rate of 3½ per cent.?—In return for our not going out into the open market really. That is what it amounts to. We have argued the exchange rates with them times without number. We said we thought their rates were unreasonable and that we should go out and capture the other business. We buy a lot of commodities and could pay for them in London.

1237. You mean you would buy bills from merchants there and sell your bills to merchants here?—Yes, they want to remit money Home; but we refrained from that, from creating a competition which probably was not wise. There would have been a surplus of requirements, as far as we were concerned, over what we got from merchants, when the banks presumably would take their toll; and we would have had to go to them for a considerable margin.

1238. You are now practically receiving parity for your gold?—We are at the present moment. "On the assumption that this position is not permanent and that fluctuations in the currency of the United Kingdom as compared with the dollar will still arise, it appears desirable to present the note to the Commission in justification of the considered view of the Gold Producers' Committee that it is desirable from the point of view of the gold mining industry that the South African currency should be linked with the British currency so long as the policy of the United Kingdom is gradually to return to the gold basis."

1239. Your idea then is that the South African currency should be linked to sterling only so long as the policy of Great Britain is to return gradually to a gold basis?—Yes.

1240. Great Britain has been returning gradually to the gold basis during the whole year 1924; she started pretty well down, and in January she was about 12 per cent. below gold parity, and now she is about 3½ per cent. below?—Yes.

1241. So if Great Britain should continue her advance towards parity as she has been doing during the past year, you would favour tying up with sterling?—Yes.

1242. Suppose Great Britain should practically stop where she is, or begin to waver and then jog backwards as she did during 1923—I believe she was practically as near gold parity early in 1923 as she is now, then she turned round and went down—would your people favour following her down on such decline?—What we really have in mind is the objective of Great Britain to return to the gold standard. There were fluctuations. I imagine those fluctuations in 1923 did not necessarily alter her policy.

1243. The policy of Great Britain, so far as it is publicly announced, is embodied in the Cunliffe Committee's report?—Yes. 1244. It was so embodied in 1923. During 1923 exchange dropped very decidedly in Great Britain. Now suppose the Government of Great Britain does not change its announced policy, it would still be officially anxious to get back to the gold basis, and yet its actions would be of such a character that exchange on New York would turn around and go down as far as it did in 1923, or perhaps even farther. Do I understand that your people would be willing to follow sterling wherever it went,
so long as it was the announced policy of Great Britain to return to the gold basis ultimately?—Yes, that is so. Mind you, we have not considered a possibility such as you have mentioned. We have gone on the assumption that the objective of Great Britain is to return to the gold basis.

1245. I think it was rather generally thought early in 1923, when the sterling exchange rate was between 3 and 4 per cent. of gold parity, that Great Britain would soon be on the gold standard, but then she turned around and fell to an average rate of about 4-26 for January, 1924?—That is so.

1246. That, of course, is a possibility now. To my way of thinking, that is the real vital question before this Commission: If Great Britain stays where she is and you keep your exchange here at 31 per cent. discount, this country will be practically at gold parity. If Great Britain continues to advance during the next six months at even half the rate she has advanced during the last twelve months, why both Great Britain and South Africa would be at gold parity before 1st July. So in either of these cases the problem would not be very important. The big question is: If Great Britain turns around and goes in the other direction, what is to be done by South Africa?—You mean although her avowed policy is still to return to the gold standard if it is not possible for her to do it?

1247. It might be possible for her to do it, but she might not be willing to pay the price under the circumstances?—Well, my own view, and I think the view of the majority of the gold producers, if not all, would be that we link up with her on that avowed policy and stick to it; it really answers one of your questions, viz., No. 3: "If the answer to No. 2 is in the negative, do you think South Africa should do anything or nothing to protect her currency from following the pound sterling in any future depreciation?" Well, as I say, we should favour linking up with British sterling on that avowed objective of the British Government; and if it were impossible for her—we don't think it would be—but if it were impossible for her to get back as quickly as she hoped, or if it took much longer than anticipated, or if there were fluctuations in the meantime of considerable magnitude, we should follow these. Because I cannot see personally what we could do effectively to protect it or alter it. That is our view on that particular point. I think I can elaborate it a little further: "The gold output of the Union is sold in London by the gold producers for its equivalent in British sterling. That equivalent varies, of course, with the position of British sterling as compared with the American dollar; in effect the gold is sold for dollars and the dollars converted into British sterling." We also sell it in India and elsewhere at slightly improved prices.

1248. During recent years, I understand, the bulk of your gold has ultimately gone to the United States by way of England?—Yes, but for the last six months it has gone to India. But over that period it would be mainly to America.

1249. What proportion is now going to India?—During the last few months I think it is 75 to 80 per cent.

1250. Do you think that is likely to continue?—No, I don't think so permanently.

1251. What is the particular reason for this sudden demand in India? I was reading a short time ago there was quite a little complaint in India that they were not obtaining enough gold. It was going to the United States. Now they are absorbing this large amount. What is the explanation?—I don't quite know what it is. The output for several months here, practically all, was taken by India, sold f.o.b Durban at a higher price than when shipped to London.

1252. You are not paid in rupees: you are paid in sterling?—We settle in London.

1253. Do you sell direct to India or are you practically selling to London and having London deliver in India?—We are selling direct to India, but selling through London.
1254. On instructions from London?—Our agents in London sell it. We ship direct from Durban.
1255. Formerly when you sold gold to India it used to be shipped to London and then reshipped back, did it not?—Yes, it did. But we have developed that business, and we ship direct now from Durban.
1256. It is very hard for an outsider to understand why you should, over any length of time, have shipped gold to India via London. It would seem to involve a needless expense?—That was our view, too.
1257. Why was it continued?—It apparently took time to develop the business, but eventually it was established.
1258. Were certain interests making profits out of that round-about process?—Yes, that was my opinion. As I say, they were slow; we must have pushed for a long time. I remember seeing them in London, too, once or twice about it; and gradually we got it established.
1259. The bulk of your gold for some years has been going to the United States. Wouldn't it be likewise cheaper to ship directly to the United States than to ship to London and then tranship to New York? Isn't there a waste there just as there was in shipping to India via London?—I am not sure. On the London market recently—chiefly due to the direct sales which we are making now f.o.b. Cape Town—we are getting a better price than in selling f.o.b. Durban. Just the reason for it is hard to give, except perhaps that London is anxious to retain that business.
1260. It is a question again of the profit of the intermediaries, as before?—That is the point. Somebody in London has found it to be more profitable than we have ourselves. We may have had rather a suspicion that it was profitable to them. We did have it. That is the reason we pushed in those directions.
1261. They naturally resisted giving up any of that profit. But if there was a saving on direct shipments, presumably some of that saving would come to you?—Oh, yes, it would. Now, having pushed in that direction we are now selling, as far as I can gather, in London at even a larger profit f.o.b. Cape Town.
1262. As a general proposition, is it not true that the more markets you might open for direct shipment of gold, the more competition you would have and the greater the profits you would realize; and, furthermore, that the more direct you can make your shipments the larger the profits are likely to be?—Yes, that is probably so. "The gold output of the Union of South Africa is at the present time approximately 9.5 million ounces per annum. This, converted into British sterling at, say, 94s. per fine ounce, if such a premium existed, would realise £44,650,000. Of this, approximately £13,000,000 remains in London for overseas payments, the balance (£31,650,000) being transferred to South Africa to pay wages, supplies purchased locally, taxation (including miners' phthisis compensation), etc. The cost of transferring that sum from London to Johannesburg at a 2½ per cent. rate of exchange is £712,125 per annum. The net amount received by the mines for their annual output is therefore £13,000,000 in British sterling in London, plus £30,937,875 in South African currency in Johannesburg. If South Africa went on a gold basis before Great Britain, the industry would still receive in London £44,650,000 in British sterling for its gold, on the present basis, of which approximately the same amount as before, £13,000,000, would be retained in London. The balance of £31,650,000 would purchase £28,600,000 South African gold currency, and the industry would therefore receive £13,000,000 in British currency in London and £28,600,000 in South African currency in Johannesburg. There would therefore be a net loss to the mining industry of £2,337,875 in South African currency. This loss would, no doubt, be offset in time to a slight extent by a reduction in the cost of local supplies—although there has been no evidence in the past that an increase in the value of the South African pound as compared with the British pound has been followed by a reduction in the cost of locally produced
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supplies. Logically it should be largely offset by a reduction in the main item of the industry's local expenditure, viz., salaries and wages, on which £13,000,000 is spent per annum, but the almost insuperable difficulty of achieving any such reduction is manifest."

1263. You refer to a net loss; that is, the net loss assuming you took the proceeds in South African currency and assuming that the South African pound was of the same value as the sterling pound. As a matter of fact, the South African pound is a very different thing from the sterling pound, or you would not have this discount on exchange here, and you would not have such a great difference in the purchasing power of the two pounds. After all, they are quite different things?—They are different. But theoretically of course, and logically, the particular position as far as we are concerned, is that this loss should be offset by a reduction in our main items of expenditure here in the industry.

1264. The credits, I suppose, that come from those sterling pounds are used primarily for the purchase of goods of one sort and another that are imported here: that is, you don't bring the pounds back. You sell gold in London and buy goods from the proceeds, and goods of one sort and another are brought back, and they are bought at sterling prices?—No, that isn't quite it. The money that is retained in London out of the output, out of our production, is roughly about £13,000,000 a year out of a production of, say, £44,000,000 a year.

1265. That is left there?—That is left there, mostly for dividends and various payments.

1266. "Various payments"; what do you mean?—Not much in the way of the purchase of goods, because the system on which this industry has been built—and still remains—is mainly local buying of stores.

1267. What else do you use that money for except the payment of dividends?—A few direct purchases.

1268. To the extent that you do that, you pay sterling prices?—Yes.

1269. And the evidence all goes to show that the price level in England is very decidedly higher than it is here?—Yes. On the example given we should bring £31,600,000 out here. We pay in wages about £13,000,000 a year. Taxation and the purchase locally of stores and commodities and so on account for the balance of the very large amounts distributed in this country. Theoretically, I suppose, if this country returned to a gold standard independently of Great Britain, we ought to get an advantage in the cost of living, in reduction of wages, and in reduction of stores. In actual practice it would be a long time before we ever partially achieved that reduction, and it would be serious for the gold mining industry. I do not think we have received advantage of the premium that has existed on imports into this country.

1270. I am interested in that statement, because we have had other witnesses who have given quite different testimony on that subject, and the statistical evidence that we have rather points in the other direction. I have here the recent figures for wholesale prices in Great Britain and South Africa and certain other countries. They show that, taking 1913 as 100, for September of this year the Board of Trade index numbers for England were 167, i.e. 67 per cent. higher than in 1913. The Statist index numbers were 166, i.e. 66 per cent. higher than in 1913. They are prepared on a different basis, and cover somewhat different commodities, yet they tell essentially the same story. For October the figure for South Africa, which we have just obtained from the Census Office, is 133, showing that your average wholesale prices are 33 per cent. higher than they were in 1913; whereas Great Britain's are 66 or 67 per cent. higher. That seems to show that the South African pound has a much greater purchasing power than the British sovereign. I have here a table which was prepared this year by the League of Nations showing for 26 important countries of the world the price movements since 1913 and the present status of the price levels in all these countries as compared with the 1913 price
level. These countries are ranged in the order to which the purchasing power of their currencies now approximates their respective purchasing powers in 1913. Those whose purchasing power are highest as compared with 1913, in other words—where wholesale prices are lowest and presumably also the cost of living, as compared with 1913—are given first, and then they taper down. It is rather interesting to look at these figures. Of the twenty-six countries, the one the purchasing power of whose currency is highest or the price level is lowest as compared with 1913 is South Africa. The purchasing power of South African money is even higher as compared with 1913 than in a number of gold standard countries. South Africa first, then Egypt, then the United States, then the Netherlands, then Canada. The last two are practically on the gold basis. Then we obtained a short time ago a chart prepared by the Government Census Office showing the price movements since 1913 of goods in general in the United Kingdom, the price movements of goods imported into South Africa, the price movements of commodities in general in South Africa, and those of South African products. South African prices are in each group lower than prices in England?—That should be reflected, shouldn’t it, in our stores costs and our wages?

1271. It certainly should. Of course, I don’t know to what extent you raised wages when the premium was high. If you did not raise wages then proportionately, you shifted the burden on to the labouring man?—We raised wages, not immediately proportionately. But we raised wages at one stage in 1920 to the level practically of the official level of the increased cost of living in 1920 by means of a cost of living allowance.

1272. Did you do that for European labourers and for Kaffir labour as well?—No, European only.

1273. The Kaffir did not get an advance in wages?—He got a slight advance.

1274. He didn’t get a proportionate advance?—No, we hadn’t got it to give him.

1275. He had no method of enforcing it?—And we hadn’t got it to give. A proportionate increase in native wages for 180,000 natives would have put a large portion of the industry out of business.

1276. If you had given it to him, you couldn’t have given it to the white man?—We could have given both a very small increase. The native, of course, is fed and housed by us.

1277. What proportion of his wages would the feeding and housing represent?—The cost of feeding, I should think, is 8d. or 9d. a native shift. Housing is hard to say. Per shift it would be very small, because we build these compounds.

1278. It is something like one-third?—Yes, something like that.

1279. That does not cover the food for his family when he is a married man and has a family?—No.

1280. So under the pressure you were under, the gaff had to be given to somebody, and the native got it?—Yes. Of course, there was more justification for increasing the white man, because the native was not suffering so much. The white wages question is interesting. You remember the Economic Commission that came out here in 1914. It investigated wages thoroughly, and it came to the conclusion that ours, compared with the world generally, were high.

1281. That was in 1914?—Yes, 1914. The wages to-day are about—I am speaking of the average day’s wage, not contract men—16 per cent. higher than 1914.

1282. And the cost of living to-day?—Is 16 per cent. higher.

1283. Isn’t it more than that?—That is excluding sundries.

1284. Should you exclude sundries?—We think we should. We have boosted the purchasing power are

1285. Sundries are the things that make life worth while to most of us?—We apply the 16 per cent. to sundries, of course. That has been the general dictum right throughout the labour world, I think you will find.
1286. The wholesale price index numbers are 33 per cent. higher than they were in 1913. If you include sundries, it is 32 per cent. higher? This is the first case I have ever heard of of sundries being excluded. If you don't include sundries, and sundries go up further than other things, then the native labour suffers?—You are talking about the native workman now. I was referring to the white workman.

1287. The white workman the same. It seems to me that we have a general principle here?—As regards the white workman, in 1914 the Economic Commission found there was a considerable margin. We have gone upon that basis that there was a considerable margin. We have stuck to the point, are maintaining it, that 16 per cent. is the increased cost of living that we are prepared to consider, and have considered, in our wages.

1288. In the United States the cost of living, when I came away, was something between 60 and 70 per cent. higher than it was in 1913, and such wage statistics as we had showed that in the main, excluding agricultural labour, wages were relatively higher as compared with 1913 than the cost of living. The average wage of employees in factories in New York State, as reported by the New York State Bureau of Labour, was nearly twice what it was in 1913. Sundries in many countries in recent years have been relatively higher than other things. If you exclude them or just give them the same percentage advance as food, fuel, light, and heat, and, in comparison with the 1913 level, they should rise for any considerable period of time higher than these other things, you would put yourself in the position of squeezing out of the labouring man enough of the industry's earnings so that 16 per cent. is the increased cost of living that we are prepared to consider, and have considered, in our wages.

1289. As I understand it, the value of gold went down during the war period to considerably less than half what it was worth before. Of course, the price remained the same in terms of gold. If it were any other industry in the world whose product declined to less than half its former value in a few years' time, the producers would be forced to reduce production for the time being. Why shouldn't it be done with gold? Why should gold be a particularly favoured industry in that regard?—During the period of the war there was a tremendously heavy rise in costs, and for our product we were getting less and less. Very nearly half of this industry—which indirectly supports an enormous number of people—was threatened with extinction; hence the request we made to the workmen at the end of 1921. Certain details were set before them showing as clearly as we could the position and the necessity for reducing the level of wages. And then we had the strike and the revolution which followed it. As well as wages, there were other important points in dispute: one man one job, discipline, efficiency, and a variety of matters. Then we restarted the industry in 1922, having discarded a good many men who were redundant. We have got much improved efficiency, reduced working costs, and put the industry again on a sounder economic basis than I think it has ever been before.

1290. Costs have been very materially reduced, partly as a result of this pressure. They rose to 25s. 8d. in 1921. They are now down to 19s., a saving of 6s. 8d. a ton.

1291. What were they in 1914? Two shillings less: 17s. So you have gotten your costs down pretty well in the neighbourhood of their pre-war level?—Curiously enough, the position is almost
identical as regards white wages. The wage-earner is 16 per cent. above the 1914 level; the cost of living is 16 per cent. above the 1914 level; and the 2s. a ton which the owners of the mines are still suffering in costs compared with 1914 is somewhere near the equivalent increase in the cost of stores, etc., consumed by the mines when compared with the same costs in 1914.

1292. The mines in general are making profits, are they not?—A large section of this industry, as you know, is very low grade; it is just on the border line.

1293. I have been reading recently some of the announcements in the paper of the profits earned by gold mining companies this year. They seemed to be very good—Some of them; but comparatively few are very big. There are gradations of mines.

1294. There are always marginal mines, are there not, and always will be?—Yes.

1295. And any change at any time that is favourable to the gold industry is likely to bring into operation new mines, and any change that is unfavourable is likely to put marginal mines out of business?—Here the proportion is large. That is the point I want to make here. All dividends paid—I am giving the figures from memory—in 1923 in this industry were £8,400,000. £5,700,000 came from 10 mines on the Far East Rand. The remaining £2,700,000 came from 27 mines on the rest of the Rand. That is the total paid by the remaining 27 mines; huge producers, huge employers of labour, distributors of wealth, but nothing much for the shareholder.

1296. After the world reaction following the great rise of prices culminating in 1920, there was a tremendous reduction of profits, and, of course, a tremendous number of failures in all kinds of industries in a good share of the countries of the world. Did the mining industry suffer then along with everything else?—Oh, yes.

1297. I suppose that as a general proposition the gold mining industry profits when the price level is falling, for when there are any considerable number of countries on the gold standard it gets a constant price for its product while its costs are falling. Ordinarily it ought to profit in a period of deflation and lose in a period of inflation?—Of course it lost much more quickly and directly in a period of inflation than it gained in a period of deflation.

1298. What makes you think that?—As I just mentioned, when we were discussing the question of our stores costs in this industry, since the deflation has taken place. If you investigate the figures, the stores figures, per ton milled, you will find that we have received very little benefit from that. Those figures could be worked out for you in any particular mine; but you will find that there has been very little benefit derived from the situation that you set out as existing in South Africa as far as the industry is concerned.

1299. When the price level went up very decidedly, and you received an increasing premium on gold, there was a substantial lag in the upward movement of wages, was there not? So you gained by that during the period of the lag?—There was a lag; it was not a very heavy lag, because I think it was in 1916 we fixed cost of living addition to the wages of the white workmen on rising prices. 'To-day, if the cost of living fell still further to 10 per cent., say, or 5 per cent., if we attempted to reduce white wages, we would probably be in for a much heavier loss through cessation of work for a period.

1300. There is likewise a lag on the way down. In the one case you benefit by the lag and in the other you lose?—There was not much of a lag on the way down. There was a strike and a revolution really on the way down. The lag on the way down is much slower. I reckon we are probably eighteen months behind in commodity costs, and even a longer time behind wages. To-day, if the cost of living fell still further to 10 per cent., say, or 5 per cent., if we attempted to reduce white wages, we would probably be in for a much heavier loss through cessation of work for a period.

1301. Here I have a chart of South African prices. Here is the rise that took place in 1919 and 1920, and here is the decline that followed. As far as the lag is shown by the chart, which covers a large variety of South African products and has been prepared...
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officially, it would seem as if the rate of decline was nearly as great as the rate of the advance. The lag is only a little greater—a few months at most on the average. We have not had any evidence so far that bears out the claim that there was a much longer lag in one direction than the other. If you have any evidence to bear that out, I would like to have it.—What I do know is our store costs per ton, I think you will find out, are still in the neighbourhood of 1s. 9d. to 2s. per ton milled above the 1914 level. That, I think, is the position. I can get a mine worked out, one of our large mines, or you can get hold of the buyer for the industry, who would give you pretty accurate information.

1302. That would be useful. You said a minute ago that wages at the present time were, roughly speaking, about 16 per cent. higher than 1914, and that the cost of living to your people was about 16 per cent. higher, that is, for white labour.—Yes.

1303. Suppose the unexpected should happen and that sterling should again depreciate very decidedly in terms of gold and in terms of commodities; if the South African pound were tied up to sterling the South African pound would likewise have to depreciate. That would mean, would it not, that you would find it necessary in order to maintain sterling values to have a considerable inflation?—Do you mean that the depreciation of sterling would be permanent or one of those fluctuations that we have had from time to time—a steady descent?

1304. In 1923 the gold value of sterling descended pretty steadily throughout a large part of the year. Suppose you had a decline in sterling running for a year or so?—A similar one to 1923?

1305. Yes?—Then we were able, I think as far as the industry is concerned, to avoid any inflation. We did not increase wages.

1306. But did you stay with sterling there? As I understand it, the proposition is to tie up pretty closely to sterling, as Egypt has done, and not to stand off by yourselves. The exchange rate was then fixed from time to time very irregularly, and there was no attempt, as I understand it, to follow sterling closely through 1923. There has been complaint in certain circles because the South African pound was neither tied up closely with gold nor with sterling. If sterling should go down in value 10, 15, or 20 per cent., and you were going to keep a stable exchange with sterling, isn’t it clear that the value of the South African pound would likewise have to go down?—Yes.

1307. If the value of the South African pound went down, which is another way of saying you would have a rising price level, it would take more South African pounds to buy the same quantity of goods?—Yes.

1308. That would mean that with any such decline that sterling might have, if it were very substantial and continuous, and if you were to follow sterling, you would involve yourselves in the necessity of again inflating and of pushing up the cost of living, for that is what inflation means?—Yes. Of course, as I said at the start, I have confined myself very largely to thinking of the particular industry which I direct. But if we were tied up with sterling, presumably the Reserve Bank constitution would be altered; and the exporter, who sends his gold home, as we do, and gets a large portion of the proceeds back here, would be able to do that transaction for much lower costs than he is doing it to-day.

1309. How?—I am assuming, if we tied up with sterling, that the Reserve Bank would be able to deal in British Treasury bills.

1310. The more you buy British Treasury bills the more you invest South African capital in Europe. But if you were tying up to sterling and if both sterling and the South African pound were depreciating in value together, that would mean that prices would be moving in England and here, and that the value of the pound in both countries, in terms of goods and gold and everything else, would be declining?—Yes, I think that is so.

1311. That would mean I think, as it has usually meant elsewhere, an advance in your wholesale prices, followed more tardily by an advance in retail prices and still more tardily by an advance
in wages. If you should have that situation, would not that cause increasing discontent on the part of your labour group and give rise to demands, possibly involving strikes, for higher wages with which to compensate for the increased cost of living?—Yes; we might have difficulty, of course, either way.

1312. You are practically at gold parity now; you have this more or less equal adjustment of wages and cost of living at about 16 per cent. above the 1914 level?—I am picturing a different position. You are putting to me the position of a considerable depreciation in British sterling.

1313. I want to make my position clear. The question is, under present conditions should South Africa, when she is practically at a gold parity, tie up with gold and clinch the gold standard, or should she tie up with sterling? If she ties up with sterling and sterling stays at gold parity, the two things are the same thing. If she ties up with sterling and sterling goes down in value, then it seems to me you are confronted with the necessity of following sterling, and that may mean a very decided advance in prices and in the cost of living, with resulting demands for increased wages.—The point is this, though, rather in my mind. Isn't there an intermediate course? You say we are now practically at parity; so we are. I have endeavoured to explain this fact, there are five or six large mines, employers of labour, distributors of wealth, that by improved efficiency since 1922 are making a small profit. When I say small, it is a tiny profit: it is just on the verge of being a profit. It is due to efficiency, and efficiency is a pretty tender plant. It wants very little to push such a mine over the fence again.

1314. Isn't it also due to the fact that prices of stores and equipments in most mines have come down very decidedly since 1920?—Yes, but as I said, I don't think that has really affected us. We haven't had that benefit. I think the gold mining industry has had very little benefit from that. The point I make is this: if you had an intermediate course, and fluctuations as we have had in the past with British sterling, within more restricted limits—10 per cent. or thereabouts—I say for the sake of those mines on the border line it would be better business for them to be linked up with British sterling than for this country to be on a gold standard apart from Great Britain.

1315. One of the points made heretofore and strongly urged by some witnesses, was the claim that for the gold mining industry and for most other industries here, just the opposite would be true. It was claimed that tying up with gold—a commodity whose value is determined in the world market—and getting as a result increased stability, would be a great boon to the industry because it would eliminate many risks and uncertainties, and would inspire confidence in South Africa. Your evidence is quite the opposite?—I have heard that view. I have discussed it many times with people who hold that view. There is considerable confidence to-day I think in the efficiency and the economic basis of the industry. It is true to-day that all the mines are above water, at standard value. They were not 18 months ago. There were several that were producing gold at a higher cost than the standard price per ounce. Now the low-grade mines are making a small profit. But the margin is so slight that, assuming the intermediary course and that you have fluctuations within fairly reasonable limits with British sterling, I should say most decidedly on behalf of the shareholders of those mines that it is better business for them to link up with sterling. It gives them a better profit.

1316. I take it that you agree that the prospects are good that sterling is going to advance to gold parity in the near future?—With, I presume, some fluctuations.

1317. There is, however, a possibility that there may be another substantial decline of the type we have discussed, or there is a possibility that there may be a small decline with considerable fluctuations of the kind you have just mentioned. In any case, the movements of the value of sterling are practically entirely out of the control of South Africa?—Yes.
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1318. If South Africa ties up with gold she is tied up with a commodity whose value is determined in a world market and over which the manipulations of individuals or political pressure of one sort and another is not likely to have a great influence. If she ties up with a currency which is more or less a managed currency, then the ups and downs of sterling are in the hands of British officials and banks to a great extent?—They are out of ours, anyway.

1319. Yes, they are out of yours. You are tying up with a monetary unit whose value you cannot control at all, and whose value is not determined by a world-wide market for a staple commodity, as is that of gold. I want to follow up this line a little further. Assuming there is a possibility that you might have a substantial decline in the value of sterling—I don't believe that it is probable—if you should have such a decline and you should follow sterling down and you had inflation and a rise in the cost of living with the resultant demands for increased wages, which would probably become more and more insistent if the cost of living went up materially, and if you followed your present policy of trying to make allowance for it, it would mean that you would be forced to increase wages to make up this allowance sooner or later?—Yes.

1320. If you continued for some time on this line, and if the Cunliffe Committee's recommendations still continued to be the policy of Great Britain, and if this decline was only temporary—a matter of a year or so—and then Great Britain should get a better hold of the situation in carrying out its policy and should start deflating back to gold, and if you followed her down on the inflation, you would be compelled to follow her back on the deflation. And if you succeeded you would have your cost of living and your prices moving downward. And as the cost of living went down, you would naturally want to decrease wages with the declining cost of living, and feel under very great pressure to do so. What would be the attitude of labour then toward a decline in wages to compensate for the declining cost of living? Would they accept that favourably?—Oh, no! They would not accept it. It would have to be forced upon them, of course. What we did last year with the temporary depreciation of sterling and the temporary inflation was, to give white workmen a bonus on wages based upon the gold premium.

1321. That was to European labourers?—To European labourers. We gave so much for every shilling increase. But there was a vanishing point, gold at 90s. net. We reached that 90s. net put us more or less in the same position as we were in 1914. We say to the men: "We have put you in the same position as 1914. We want to be, if possible, in the same position as 1914. We will follow that procedure, because 1914 is our sheet-anchor." That was when we had the Economic Commission investigation: there has never been a more thorough investigation. We intend to rest upon that.

1322. We had a witness recently, following this line we are now discussing, who said if sterling should take this course it is probable you would be confronted with decided labour troubles both on the upward movement of prices and on the downward movement. He took the position that serious labour troubles would result from a rising cost of living with long lags in wage adjustments and that when labour got "its back up," there was generally some shooting. He also said when the prices turned around to come down, you would be likely to have some more shooting. When attempts were made to reduce wages, the result would be, he said, that South Africa would have serious difficulties going up and coming down. While you are now practically at parity with gold, the problem is, should you not stay there, and if you do stay there, would you not avoid such a possibility? Isn't the avoidance of such a danger a decidedly valuable thing to the mining industry?—I don't agree with that man. Assuming there are going to be fluctuations within reasonable limits, I think you would get more difficulty on the mines if you had to reduce wages...
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as a result of going to a gold standard independent of Great Britain, assuming there was a premium in existence, than you would in the other set of circumstances, viz., linking with sterling and following it.

1323. You have been close to gold for some time. The gold premium is now very small and is practically all eaten up by the discount on exchange.—We are getting demands for increased wages now. That is largely political. If we could remain as we are, we were better off in 1914 than we are to-day.

1324. Why can't you stay where you are if you go to a gold basis?—As I say, if we could stay where we are, well and good. But from the point of view of those mines which I have referred to and which I represent as well as the richer mines, assuming there are fluctuations within limits and temporary, the owners of those mines would be better off linked with British sterling.

1325. I don't yet see why, if South Africa resumes specie payments on 1st July, you cannot stay where you are. If gold itself remains reasonably constant in value (we hope it will for some considerable period of time, as it has during the last four years) you would then avoid most of this risk of inflation and deflation?—That is true. What I rather mean is, the attitude of the gold producers is there may be fluctuations in British sterling. We think they are going to be fluctuations. And whilst there may be risks in linking up with British sterling and in following British sterling, if it descends we have faith, and on the whole we don't think she is going to. And we think it is better business for the low-grade mines, whom we are considering and for whom we are also acting, to link up with British sterling and take any chance of falling into the pit. If Great Britain did descend into the pit, my own view is that we should be in the pit too. No matter what steps we took.

1326. Your product is gold. I suppose gold is not unlike any other product, in the sense that the greater demand for gold, other things equal, the better off the producer of gold is?—Yes.

1327. The great bulk of the world's demand for gold ordinarily is for coinage purposes. I suppose that something like three-fifths of the world's demand for new gold before the war was for monetary purposes?—For the settlement of international differences also, isn't it?

1328. I think the figures of the United States mint show that it is considerably over half for monetary purposes. The proportion fluctuates, roughly speaking, from one-half to two-thirds. Now, if that is true, I should think that from the standpoint of South Africa's great product, gold, the quicker the world got back to the gold standard and the more gold the world used, the better for South Africa?—I think that is true.

1329. Anything that will encourage the return of the world to the gold basis should be grist for the mill of the South African gold producers?—That would be so undoubtedly.

1330. It is rather a striking fact, and a fact often commented on, I know, in the United States where we discuss these problems a good deal, that the country in the world that is most interested in creating a great market for gold and in encouraging the gold standard and the circulation of gold itself, repudiates gold to the extent of going off the gold basis, and in staying off after many other countries, even Germany, which has come back practically to the gold basis, and even after all sorts of small countries that have no particular interest in gold have returned. Canada is practically back. Many little countries have been back to gold: Albania, San Salvador, Nicaragua, Panama, and Haiti. Colombia also returned to the gold standard last year. Yet here is the greatest gold producing country in the world, anxious to make a market for its gold, with enormous reserves in gold on hand, with big credits in London, and refusing to take the step. The world wonders why the South African gold producers don't push their product more?—It does sound odd, I admit. But if we go back to the gold standard independently of Great Britain, it would not
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affect the issue one iota: I think we are too small beer. I should have thought that the effect of our going back to the gold basis on our own would be very slight.

1331. I suppose, as a general proposition, that is true. But you are now in a particularly favourable position. There are at present a number of countries in the world that appear to be wavering. England is pretty nearly back, and the question is: "Shall she try to clinch it or not?" The Netherlands are practically back, but haven't taken the final step. Canada is back, but has not yet been willing to commit herself to convertibility. Other countries, like France, are questioning the advisability of coming back by plans of devaluation of their gold monetary units. The world is at a stage in the situation when a very little influence might count considerably. It is possible, for example, that the example of South Africa at this time might be a determining influence in deciding how England should act. No one can be sure of such things, but I think now is the time when the world is very sensitive to suggestion?—I should not have thought so. We believe we are linked for good or for ill (we think for good) with Great Britain, with British sterling. That is our view, and the other view, as I am told, is merely the fact that we believe (we may be wrong, but we think we are right) that the fluctuations will be within a narrow margin if we link up with British sterling and that she will go back as soon as she can; that the interests we represent, and referring more particularly to the low-grade mines. It is true to-day they are making a tiny profit better of making a small profit. It is clear to you what this means to their shareholders, the low-grade mines have an enormous value to the country generally.

1332. Isn't it true that the market price of practically any commodity is determined fundamentally by the demand for that commodity on the part of the final consumers, i.e. those consumers who really determine what is paid, and the supply of that commodity which is regulated to a great extent by the costs at which it can be produced? Now, the supply of the gold on the world's markets to-day is largely determined by South Africa. As far as the demand is concerned the principal ultimate consumer of your gold for a number of years has been the United States. It may not continue indefinitely because the United States is getting an undue proportion of the world's gold. Probably the United States at present, much more than any other country, determines the ultimate return that you are going to get. The result is that the value of gold in terms of commodities is determined largely in the American market on the consuming side largely and in South Africa on the producing side. And England has been for some time chiefly an intermediary. While you have sold your gold in London on a paper basis, and you may have had a more or less stable exchange with London, London has had to sell on a gold basis and has had an unstable exchange with New York. You have not avoided the disadvantages of instability of exchange; you have merely passed them on a step farther. So that, broadly speaking, one would expect that the purchasing power of your gold, which is the real value of your gold, was determined not so much by the sterling market nowadays as by the gold market in America?—You may be right. You know a great deal more about it than I do. My vision is somewhat restricted, of course, by the position of certain low-grade mines. It is true to-day they are making a 'tiny profit on parity which they were not doing 18 months ago.

1333. We are not comparing the situation as it was one year ago or two years ago. We are taking the situation now. The question is, what should South Africa plan to do now for the next six months?—I see that The point I make is that one section of the mines is making a tiny profit, which may disappear. It is just their chances in fluctuations in sterling of doing rather better. Assuming there was a large premium, the question of labour difficulties, if on a gold standard, would give us much difficulty; but the premium does not exist, it is hardly worth while discussing.
1334. You say that if the price of gold in London were to fall to 88s. 4d. per fine ounce, it would pay the mines to mint it in South Africa. The mint would pay approximately 85s. less 11/12ths pence per fine ounce on amounts over 500 ounces. How is the difference of 3s. 3d. approximately made up?—I haven’t got the figures here. But I know that figure is right, the price of 88s. 4d., taking into account exchange rates and realization charges.

1335. The margin between buying and selling rates would presumably be reduced if both countries went back on the gold basis?—Would they? I have met these bank managers in this country, not once but scores of times, and again just recently on the question of exchange rates. The last time was about a month ago that we tackled them on these exchange rates which had been steadily rising. They have two lines of explanation: the first line is the surplus of exports over imports, the accumulation of balances in London. Their margin between buying and selling, we put to them, was too great. They say it isn’t. I say it is. Then we say: “You have to consider this industry a little bit differently, we think, from the ordinary customer, and from several points of view. It is supporting the country very largely. And we say that it is true that exports are greater than imports we have got no remedy. We have no gold point. We are in your hands. We have simply to pay what you fix. Can’t you consider that point of view?” They say: “No, the real difficulty is, we don’t know what is going to happen in June, 1925.” That constitutes their second line of defence.

1336. Suppose the answer were made that the Government would announce that it was going to return definitely to the gold basis 1st July, 1925, according to present legislation. Couldn’t you count on that? Of course, if England should return soon, too, you would have your variations fixed within the gold points. Before the war you didn’t have anything like as wide a margin as you have to day?—Oh, no.

1337. Suppose the exports exceed the imports?—(Professor Kemmerer.) I think that will stand quite a little analysis: If this country is exporting continually more than it is importing, it is giving something to somebody for nothing, and it is about time the country found it out?—It must be getting it back. We have pushed that point with the banks. Then they have abandoned that point. Then they come to their second line of defence. We have been paying these heavy rates.

1338. I was talking with a banker the other day about it. He said that it is due to uncertainty that sterling is unstable, that the banks have had big losses, and that they must get compensation to cover their past losses and to cover the risks of these fluctuations. But, after all, it is these very fluctuations that it is proposed to try to eliminate by stabilization with gold. And there is quite a common belief, I think, that a great proportion of the weaker institutions here have already been squeezed out. That is a question of the discount rate and the loan policy, and not the exchange rate on telegraphic transfers, where there is no risk?—There is no risk. As I say, they have abandoned that when we put it to them, and fell back on their second line of defence. I am a director of the Reserve Bank, and have been since its initiation. But we have little real power at present in the Reserve Bank to effectively control the situation as we should.

1339. Why not? As far as the statutes are concerned you have the power. You have more power than our Federal Reserve Banks have in America?—The understanding was at the time the first Conference sat in Pretoria, at which I was present, and when the Reserve Bank was evolved, that we should not compete with the commercial banks; and to that the Governor has stuck very closely.

1340. It was not in the legislation?—It was not.

1341. How long will such a gentlemen’s agreement last; for ever?—I think not. I feel our hopelessness in the hands of the
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banks with these exchange rates. We have to get that £31,000,000 back to this country.

1342. It strikes me as a very anomalous situation. I don't understand how a group of people can get together and say: "We understand so-and-so," and that that can modify legislation and determine the policy of a great central bank that is dedicated to the public welfare. Such an agreement is extra-legal. Where would you get in any country if a few people in the legislative halls or outside could agree in advance as to what could be done by a particular institution regardless of what the law said, and if they could enforce that agreement?—Unfortunately, in this country you have a political situation that was difficult and remains difficult.

1343. Is there any competition to speak of between the banks?
—No. As far as the telegraphic transfer exchange rates are concerned the Standard Bank dictates them, as a matter of fact.

1344. Why couldn't the Reserve Bank come in and say: "Here, this margin is too high. Our primary purpose is to serve the South African public. One way we can do so is to exercise the influence we have in making these rates reasonable for the public. If you don't agree to reasonable rates, we will come into these open markets and will operate so as to enforce reasonable rates"?—I agree. I think we should come in and compete. There are no better bills in the world than the gold mining industry's bills. There has, however, been the understanding referred to just now. But the Reserve Bank has done some very useful work in many other directions.

1345. What useful work has the Reserve Bank done except to help bank on its feet a bank that was in difficulties?—It has done this, I think: It has directed the attention of the bankers here to their general line of conduct. Before it was easy credit when things were good. They handed out credit too easily, and then there were equally unwise and thoughtless restrictions when things were tightening up. To my mind, there was lack of judgment.

1346. Wouldn't that have been driven into their heads from some of the experiences they had in connexion with business failures here? They probably would have had that impressed upon them pretty well even without the Reserve Bank?—I don't know that they would. How often in this country has one seen credit foolishly given and as equally foolishly restricted. In this particular case, 1921, 1922, 1923, they made very heavy losses. That has governed their actions. in my opinion, in fixing the exchange rates for the gold mining industry.

1347. They are trying to compensate for those losses?—A definite profitable business: £900,000 a year at the present time, without the faintest risk.

1348. Isn't it an anomalous position that they should say: "We have made these heavy losses and now we must compensate for them by abnormally wide margins. In order to make good these losses, we are going to put the rate up on first-class absolutely safe business, and make that class of business pay the fiddler"?—I think it is monstrous, and have complained to the Government and everybody I could get hold of. We could do nothing.

1349. Here you say is an industry vital to South Africa, yet being held up unjustly. In that way South Africa, is suffering if the situation is as you maintain. Isn't it then the place of the Reserve Bank to come in and force favourable action?—I am sure it is; I am convinced it is—not only for the gold exporter but for the wool and cotton and diamond exporter.

1350. And for the importer, too?—And for the importer.

1351. If the Reserve Bank does not come in and function in such a way as to protect those interests and guaranteeing reasonableness of rates for the public, what is the justification for its existence?—In those circumstances I don't think its existence would be justifiable.

1352. When you are speaking of these rates, do you have in mind primarily the margin between the banks' buying and selling rate, which it has often been claimed is unduly large, or
do you have in mind the absolute rate at which the banks buy?—I have in mind the absolute rate, not the margin. The margin between buying and selling, I think, is too high. I was not dealing with that, but with the actual rate that we are charged for telegraphic transfers.

1353. If sterling is on one basis and you are on another basis, the two monetary units have the same name, but, after all, they are quite different things if they have different purchasing powers, if they are issued under different conditions. Isn't it just as natural and necessary that there should be a varying rate between them as between, say, the German rentenmark and the French franc? They are different units entirely, and they would be expected to change in their relationship to each other in proportion as they change in their relationship to goods and gold?—Yes; that aspect of the thing I haven't really thought out. My view was confined to the actual rate for the services rendered, so to speak, that the banks are charging us.

1354. You are assuming in your reasoning that the South African pound and the English pound are the same thing?—Yes.

1355. You keep your accounts, do you not, in sterling?—Yes.

1356. And most concerns here keep their accounts in South African pounds?—I don't follow that quite.

1357. Most people in any country keep their accounts in the money of the country?—Yes; I am assuming that the South African pound and sterling are the same thing.

1358. If you try to realize the same for them you find you can't do it?—No; that is so.

1359. And the value of a thing is determined by what you get out of it?—Yes; that is so. We are keeping our accounts in sterling; we sell our products for sterling, but we have always assumed that sterling and the South African pound are linked.

1360. You would have to give up that practice if there should be a very great difference in the two. A short time ago there was a discount as high as 8 per cent., and you carried the two as equivalent even then?—Yes, we did. Eight per cent. I forget the actual date, but I know money went out of the country at a great pace. Yes; we have never distinguished between the two. But I don't know that you could keep your accounts in any other way.

1361. You could keep them in South African pounds and count sterling at the current rate of exchange, or in sterling pounds and count South African pounds at the current rate of exchange?—We deduct from our product the turning of our gold into British sterling and the conversion of sterling into South African pounds as required. That is all included in our working expenditure.

1362. Take the case of the Reserve Bank. In the balance-sheet of the Reserve Bank certain substantial balances in London are shown. Then there are certain assets here. In each case it is given as pounds. Am I correct in assuming that the balances in London are pounds sterling and the balances here are pounds South African?—Well, they are all the same; I'm quite sure.

1363. Are investments made in London repayable in pounds sterling?—Yes.

1364. Any loans you make here in South Africa are repayable in South African pounds. In that case, when you transfer funds "in" here to London you get an increased number of sterling pounds for your transfer, and I take it that that would have to appear as a profit. It would go into the profit and loss account or into undivided profits. Then the minute you transferred it back you would lose the difference, and it would have to come out. When you add together your assets you are adding two unlike pounds sterling and South African pounds, and changing your profit and loss account each time you make a transfer. Strictly speaking, it is like adding marks and francs?—Yes, that is so.

1365. We appreciate your testimony very much. If there is any later information you would like to give us we shall be glad
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to receive it?—I am afraid I may not have been very helpful. There are one or two things in connexion with commodity costs, as far as we have experienced them on the mines, about which I would like to get out some figures for you. I would like to get a comparison, if I could, between 1914 store costs and the present stores costs.

THURSDAY, 18TH DECEMBER, 1924.

Professor John Edward Holloway, D.Sc. (examined).

1366. (Dr. Vissering.) Dr. Holloway, you are, I understand, Professor of Economics at the Transvaal University College?—(Dr. Holloway.) Yes.

1367. The question on which our Commission has been asked to advise is whether South Africa should return to the gold standard independently of England on 1st July, 1925. Will you kindly give me your opinion on this question?—I think that the choice, as far as our standard is concerned, lies between three main alternatives. In the first case we might return to the gold standard independently of Great Britain; secondly, we might allow the South African paper pound to fluctuate independently of the English pound, and thirdly, we might make steps to make the South African paper pound keep pace with the English paper pound. It seems to me the choice lies between these three things. Now, on the whole I am in favour of the first of these; that is, returning to the gold standard independently. But to arrive at that conclusion I shall start by first discussing the second and third alternatives, and then return to the first point. I want to discuss in the first instance the objections to the second and third alternatives mentioned by me. Let us consider for this purpose the probable effect on wages, prices, and the Union Government's finances, and through them on production generally, of an independent return to the gold standard. The opponents of this independent return fear that if it is resorted to, there will be a considerable disturbance of wages, prices, and Union Government finances. That there is likely to be some disturbance I admit. An adjustment from an unsound to a sound basis always involves some sacrifice. But I deny that the disturbance will be considerable. Our paper is too close to gold for this. Moreover, there is this additional consideration to be taken into account: when we have made the adjustment from paper to gold, we have made it once and for all. But so long as the South African pound either fluctuates independently or in company with the English pound we shall have to adjust values from time to time.

1368. On what grounds do you anticipate that?—One cannot expect the paper pound to remain at one fixed point for any length of time. Your quantity of currency may change or your volume of trade may change. The presumption is that they will not move at exactly the same rate. If that is the case then fluctuation will be continually going on, and we shall have to adjust our prices and our wages according to the new basis from time to time.

1369. Do you expect that the change from the South African paper pound to gold will stop these fluctuations?—I expect that the change will stop these fluctuations, and also that the fluctuation will be confined to either of the two alternative cases, and that therefore we shall have to go on adjusting prices from time to time. Ultimately they again will influence wages. With the gold standard we will have to adjust once, and with the paper standard we will have to adjust repeatedly. It seems to me therefore that if a return to gold is possible it will be of very material advantage to the community, because it will give us a more stable basis of wages and prices, and that will give stability to production and to commerce also. This uncertainty seems to me to be a strong argument against the continuance of the paper currency. All this reasoning, however, is based on the assumption that the return to the gold standard is possible without creating
any further cause for instability other than the fluctuating value of the currency. The opponents of an independent return to gold, however, express a very grave fear that stability would not result owing to the effects of the change on the imports and exports. They maintain that we shall simply substitute a new and worse form of instability for the old instability, because the change will lead to export of our gold reserves and, generally, of capital. If that happens it will introduce an element which is probably much worse than the instability of paper currency. The question is, however: "Will that result from the change to gold?" Look at it first from the point of view of the normal course of trade: There is always a possibility of the balance of international indebtedness accumulating either here or abroad. This is one of the incidents of the normal course of international trade, but it never becomes serious if the monetary system is sound. The danger is greater under a system of convertible paper money. If, however, such a balance does accumulate against us after we return to gold, it will not be due to the return, but to over-ordering on the part of our merchants. And if there is no other objection, then it appears to me this is simply an incident of the international trade which applies to all time, and need not concern us in connexion with the problem under discussion. It is maintained, however, that there will be special circumstances affecting the peculiar South African position, apart from the rest of the world, and that those circumstances will make the change harmful to the welfare of South Africa. To elucidate the ground of this apprehension, let us assume that after our return to gold 100 South African gold pounds will buy, say, 105 British paper pounds: If this is the normal relation between the two currencies, no harm will result. People will realize that a British pound is worth less than a South African pound in the same way as they realize that a dollar is worth less than a pound. But this is not the normal relation since Britain is expected to return to gold sometime in the future. This might therefore give rise to speculation, for people in South Africa who can lay hold of money might transfer that money to England in the hope that although the £100 South African is worth £105 British, now that £105 British will be worth £105 in South Africa later on when Britain returns to gold.

1370. That is a question of speculation?—Precisely. Now that can also be done in the system that we have at present, and if it happens, there is no automatic way of stopping it. The only way of stopping it would be by adopting the third of the alternatives mentioned by me above, that is, linking up the South African pound and the British paper pound. But while this would rid us of the danger of speculation in exchange, it can do us an enormous amount of harm in other ways.

1371. Then you are no more master of your own currency?—Precisely: conditions which influence the stability of prices, stability of wages, trade, and production in South Africa would be determined by the course of those events which influence the value of the currency in Britain. It seems to me to be an infinitely worse evil, because we shall not only have to face further fluctuations, but since these will be governed by the course of events in Great Britain, we shall be even less able to foresee them.

1372. Do you expect that capital will flow out to England or other countries?—We have endeavoured to avoid this: if capital be exported for speculative purposes it can happen equally under the conditions now existing, and that the only way to stop it is by adopting the third alternative mentioned above, which, however, is open to grave objections of a different kind. I don't, however, regard the risk that capital will flow out as a very grave one. As far as speculation is concerned, the time element and the anticipated gain are the important considerations.

1373. Do you not think that, generally speaking, the yield of investment in South Africa is higher than in England?—I am naturally assuming that, as there is free scope for investment of British capital in South Africa, the normal returns from marginal
investments will tend to be the same in both countries, allowance being made on the side of the British investor for the inconvenience of making his investments in another country, with a different system of laws, different elements of risk, etc., and vice versa. And, therefore, as far as marginal investments are concerned, there might be a tendency to draw South African money out. Against this I raise the objection that in any case the speculation is not a particularly attractive one, because there will be conflict between the elements of time and anticipated gain. If the percentage difference between the South African gold pound and the British paper pound increases, the anticipated gain will increase, but the time element would militate against the speculation because a longer time would be required for the British pound to get back. As soon as the time element becomes attractive the percentage would become unattractive, or in any case very much less attractive, and therefore, while it is possible that a certain amount of capital may be withdrawn, I don't think it can be very much. If any capital is exported it is almost bound to return later, for the same reason that marginal investment in South Africa will then again be better than abroad, but I do not anticipate any serious difficulty apart from the difficulty of adjustment. On the other hand, supposing we are on the gold basis, we have other important advantages. At present, producers, merchants, and bankers have to make provision in all their purchases for the uncertainty incident to the instability of the paper currency here. It seems to me that uncertainty is an evil in itself, and that if we can eliminate this form of uncertainty, which is a result of the fluctuations in our currency, we shall do the community a very great service. Competition is ultimately limited by uncertainty. It seems to me that at the present day a prudent banker, for instance, must necessarily keep a larger cover to safeguard himself against possible fluctuations in the value of time and anticipated gain than he would require if he were on the basis of an absolutely sound currency. Once you have eliminated that uncertainty, producers, merchants, and bankers can make their dispositions without the need of keeping special reserves against possible fluctuations of an unstable currency. In conclusion, there is one further general consideration which has its bearing on the question. In South Africa the smallness of the internal market enables large business houses to maintain a considerable measure of control over prices. Competition is therefore limited. The system of open credit which is so widespread also tends to limit the freedom of competition. All this exercises a considerable influence on prices. The fall in the price of imported commodities seems to me to have been handed on to the consumer only in part. A further rise in the value of money would make it more difficult to hold back any advantage of falling prices from the consumer. Business houses can retard the fall of prices to some extent, but when that fall becomes considerable owing to a considerable rise in the value of money, the normal working of competition will reassert itself and force prices down to something nearer to their natural level.

1374. But deflation seems to have gone very far in South Africa in comparison with European and American figures. The index number of South African prices is now nearer to the 1913 figure in South Africa than in European countries and in the United States?—One has, however, to bear in mind, firstly, that the level of prices in South Africa in 1913 was very high, and secondly, that there was never so much inflation in South Africa as in England.

1375. So you are of opinion that the return to the gold standard will not be disadvantageous?—I think there will be a certain amount of disturbance when one moves from an unsound to a sound position in economic conditions. One must necessarily expect that there will be some measure of disturbance, but I think that that disturbance will be confined to the period of adjustment. In this connexion the main point to be considered is the time which is necessary for the various interests, concerned—producers, merchants, bankers, etc.—to prepare themselves for the change. Any risk which one has to meet is deprived of a great
deal of its danger if one knows when and where one has to meet it. As to the length of this period of preparation, I don't think that I can offer any useful suggestions. In this matter the evidence of the practical man concerned is of the utmost importance. I think one might ask them how much time they would require to make their preparations, assuming that we are to return to the gold standard.

1377. The fear is expressed that if South Africa returns to gold certain low-grade mines which are just inside the margin of profitable production now may have to close down, because they will get less (in South African pounds) for their gold without being able at the same time to reduce the wages paid by them?—I do not anticipate an increase in wages as the result of the return to the gold standard. If there is any movement in wages, it is more likely to be a fall. But as I have explained, it seems to me that the mines have already brought down wages to a gold-level basis, leaving out of account, of course, the bonuses which will disappear with the disappearance of the premium on gold. As far as the influence of the disappearance of the premium on the low-grade mines is concerned, one must face the fact that some mines may not be workable at all, because there is not sufficient gold in them to pay for the expense of extracting it. There are many low-grade gold propositions in this country which have never been taken up for this reason. In the case of certain of the low-grade mines the payable ore has been extracted, and all that is left is the unpayable part of the mine. It is, of course, entirely uneconomical to keep on working propositions of this nature.

1378. In speaking of the premium on gold, are you referring to the fact that the South African pound is still below gold parity?—Yes. The American gold dollar is worth only about 4 per cent. more in relation to gold than to English paper money, and the South African paper pound is worth more than the English paper pound. The difference between the South African paper pound and the gold sovereign is, therefore, very slight, and it will be comparatively easy for South Africa to bridge what little difference there is left.

1379. And how do you think that this level of the South African pound can be maintained? Should not measures be taken to maintain this position?—You mean there may be a risk of our gold coinage flowing out of the country? If such export of gold coins does take place it will stop very soon provided that the balance of our international indebtedness does not go against us. If it goes against us, that will not be the fault of the gold standard but of over-ordering from abroad.

1380. Will that be sufficient to maintain the parity? Is it not necessary to take further measures? For instance, should not the Reserve Bank take steps to control the situation?—Of course, the Reserve Bank could exert the influence normally exerted by such institutions through their rate of interest on any tendency among the commercial community to over-import.

1381. Do you expect that it will be necessary for the Reserve Bank to take any part in preserving the gold parity of your currency, for example, by quoting its own rates for foreign exchange?—I think it very desirable, altogether apart from the
question of returning to the gold standard, that the Reserve Bank should quote rates of exchange. At present there is no competition between the other banks for foreign bills. They quote a common rate of exchange. In the absence of competition there is always a risk that the rate they quote will not be the natural rate, and the fact that they have been accumulating balances in England seems to show that in the past they have not quoted a natural rate.

1382. You are therefore of opinion that the Reserve Bank ought to come into the open market to compete with the commercial banks in foreign exchange?—It is not so much that they should seek competition with the commercial banks in ordinary business, but that it should for foreign bill business to carry out its duty of maintaining the true value of the South African pound.

1383. Do you expect that the Reserve Bank will be powerful enough to take the lead in the foreign exchange market?—If the Reserve Bank quotes a rate differing from those of the other banks, people who have bills to buy or sell will go to the place where they get the most profitable rates. If the Reserve Bank finds by the amount of business done that it has quoted either too high or too low a rate, it can always remedy that defect almost immediately.

1384. Do you expect that they will be able to buy bills? Are there sufficient bills in the market or are the merchants tied up to the banks in such manner that they are not free to sell bills in the open market?—I am not sufficiently informed about the actual commercial practice to be able to answer that question, but assuming that commercial houses are so tied, and that it will be profitable for them to deal with the bill department of the Reserve Bank, they would naturally take steps to free themselves sufficiently from the control of the commercial banks to enable them to take advantage of the more satisfactory rates of the Reserve Bank. In other words, this would tend to increase competition, and that is a thing which is badly required in South Africa.

1385. To free themselves they must abandon their open credits at the banks in order to secure the advantage of dealing in the open market?—That will also be an advantage, for it will encourage the greater use of commercial bills for internal trade.

1386. Would the consumer get the benefit of the more favourable rates at which the South African pound would be quoted should you return to the gold standard?—My own impression is that the consumer benefits only to a very slight extent. Of course, in this I can only give my impression derived from an analysis of the general factors at work, because I have not the means of knowing what actually goes on in practice, but as far as the importer is concerned, a very large number of merchants—whether wholesale or retail—is bound to certain importing houses. For example, a house in Durban would allow a merchant, say, in Kroonstad or Bethlehem, to import goods and give him credit for a certain period on condition that he buys his goods only from that importer. Now, that importer has a hold on that merchant. The latter cannot buy from other importers. Again, the merchant allows his customer an open credit, and, therefore, the latter is in turn bound to buy from him. There is, therefore, a very considerable limitation of competition. Under these circumstances it is unlikely that the prices will be reduced at the same rate as the rate of exchange. For the merchant will hand over the gain to his customer only if he is forced to do so by competition, or, secondly, if he wishes to increase his turnover and realizes that he can only do this by reducing his prices.

1387. So in your opinion the open credit system is one of the reasons that keep prices at so high a level here in South Africa, higher than would be the case with free competition?—Undoubtedly.

1388. So that may be also one of the reasons why the system of open credits should be attacked?—All possible steps should be taken to limit the application of the system of open credit.

1389. How can you find a way out? How is it possible to effect the transfer to a bill system?—I fear that I cannot help you very much on the question of how it is to be done. The Reserve Bank, for example, might get the banks to bring pressure
to bear on the merchants; then the merchant has to bring pressure to bear on the customer, and in that way in time no doubt people would get accustomed to giving bills, but there seems to be an ingrained prejudice against bills. People will agree readily to the open account, but they will not "put their hand on paper," as the saying goes. They are afraid because they don't always understand the exact legal implication of what they are signing. A farmer seems to think that if he has not signed a bill he is in a slightly better position, or rather the creditor is in a weaker position. Actually it is not the case, but there is a prejudice against the giving of a bill. The receipts of the grain elevator require legislation to become negotiable instruments. The handling of these will help to accustom the farming community to handle negotiable paper. One must remember that the farming population is not accustomed to handling negotiable instruments. They should first be educated up to this. To some extent the objection is due to the fear of signing documents the exact legal effect of which they don't understand. In the case of legal documents they will consult their attorney, but of course it is impracticable to expect them to consult their attorney about any bills they may give. One must remember that the farmers have not yet undergone a stupendous revolution in the last quarter of a century with regard to commercial methods. Before the Boer war it was not necessary to worry about bills, because business was being conducted on a basis of a small local market. The farming community were therefore not trained to modern methods of business which have at the present day to be applied. The change has come so quickly that the majority of farmers have not yet adjusted themselves to it. In time no doubt, if the banks and commercial houses pursued a consistent policy of demanding bills, the community will be trained into the habit of using them.

1390. I have been told that in this country there is a great want of agricultural credit. To a certain extent the banks are granting credits to agriculturists. You have a Land Bank here that does to a certain extent help these people, but it is argued that it is not sufficient for the wants of the country, and the farmers are complaining that their advances have not been called up, so that they are not sure that they will get the credit they really want. The opinion has also been expressed that the Reserve Bank should institute agricultural credits, and if that cannot be done, that a State bank should be established whose duty it should be to grant credits of this nature. Can you give your opinion on this question? Do you think it possible that the Reserve Bank would be able to grant sufficient credit for the farming community, or that another bank should be established, or that the powers of the Land Bank should be extended to such a degree that it could meet these demands?—As far as agricultural credit is concerned—agricultural credit of course consists of long and short term credit. There is long-term credit which makes provision for capital to buy land and the capital improvements on the land; for example, fencing, dipping tanks, silos, irrigation—apart from big irrigation schemes—boreholes, and windmills. An enormous amount of capital is wanted for all this. Now the Land Bank, I think, gives adequate facilities for these purposes, but they are bound down to certain things by law. They have a capital of rather more than £7,000,000 for that purpose, and they are continually getting more capital. They have repeatedly obtained more capital from Parliament in the past. The bank started with just over £2,000,000 and has now just over £7,000,000, so that for capital expenditure the Land Bank seems to provide for the needs of the farmers in a satisfactory way.

1391. Is it not to be extended?—Possibly the sort of extension which has been given since 1912 may continue a little longer. I think the Land Bank authorities are of opinion that they have nearly enough capital to make their turnover from year to year sufficient to meet the demands for the purpose which they serve now.
I am told people are complaining that they could not get sufficient credit from private banks, and that private banks were calling up advances at a time which was most inconvenient to the farmers?—The farmer also requires short-term credit for the turnover of his crop, and in that respect there is a very serious lack in South Africa. Recently I gave an analysis of some of the circumstances militating against the most economical employment of labour in South Africa, and I had to lay very strong stress on the fact that in a country like South Africa, with such enormous agricultural industries, no provision was made for the peculiar needs of the South African farmer for short-term credit. I do not think that the ordinary commercial bank is at all a suitable institution for the provision of agricultural short-term credit, because the commercial bank must necessarily restrict its loans to comparatively short periods. The longest period on a trade bill is, I suppose, 90 days. The short-term credit necessary to the farmer is nearer to 12 months, so that it almost stands to reason that the commercial banks will have to call up the loans to farmers at a time which is inconvenient to the farmer. For that reason I consider that the commercial bank is not a suitable institution for providing that credit. Now take the Reserve Bank. The Reserve Bank is authorized under the Banking Act to discount agricultural bills not exceeding £20 per cent. of its holding in bills. [Article 12, sub-section (3) (b).] That makes some provision, of course, but I am very doubtful whether the Reserve Bank is the proper institution to deal with this sort of credit. In the first instance, it has no branches; secondly, it has a function which is consistent in itself—that of controlling the other banks—but that function is in conflict with the provision of credit for agricultural purposes. At a time when they may require their reserves for supporting the other banks, a proportion of these reserves may be bound up in long-term agricultural bills. Therefore these two things seem to me to militate against one another. It is undesirable to let the central bank handle this type of business.

The commercial banks do not give credit in the shape of open accounts?—They give the farmers a limit to the amount of which they may overdraw. There is not the same control over all those things that you would be accustomed to in Europe. As far as a State bank is concerned, I should say that it should only be considered where one cannot make use of an existing institution. Now the existing institution that one would naturally think of is the Land Bank, and the Land Bank has had under consideration a scheme for providing short-term credit. The farmers are to form what one might call a credit circle—a certain number of farmers coming together to put up the security. That scheme was drafted into a Bill, which was placed before Parliament, but it was dropped when the general election came on.

In other words, you mean that the proper remedy would be a further development of the Land Bank?—Yes, I think that the Land Bank is a promising institution to develop for this purpose, because the Land Bank has already in force part of the machinery to get into touch with the farmers. It has its local boards in Pretoria, Bloemfontein, Kimberley, Port Elizabeth, Capetown, and it has the machinery to advise it, and it is continually getting information about the farmers, about their position, throughout the whole country, and, therefore, if you create a new institution, it would simply be duplicating the machinery which the Land Bank already has—duplicating your costs; and for that reason I should think that the development of the Land Bank should be considered for this purpose before a State bank is even thought of.

But how can such a bank become powerful enough to meet all the credit demands from the agricultural side? How can they get the funds that are wanted for this development? For I see from the balance-sheet that the capital fund of the Land Bank is £7,000,000 odd, and I see from the Land Bank Acts that they have the right to issue bills and also bonds, but the bills item shows that only very few bills have been issued—only £2,800—which is
nothing in comparison with the capital fund. I also see that they do not exercise their authority to issue bonds. So how will it be possible to develop the Land Bank to such an extent that it will be able to meet the demands of the agricultural people? How can the bank get the capital? Only from the Government, or also through subscription by private shareholders? Further, I should like to put the question whether its business can be developed in the line of issuing more bills and bonds, and if it would be possible to invoke co-operation either from the central bank or from the commercial banks to discount such bills or to grant advances on the collateral security of these bonds?—With regard to the capital fund, the present capital of the Land Bank is money loaned to it by the Government of South Africa. The Land Bank is a private bank in the sense that it is not under the ordinary control of the Government (excepting in so far as the Government appoints the whole of its management), and it is run as a special concern—altogether apart from the Public Service. That being the origin of its present capital, it seems to me it would be difficult to increase the capital fund of the Land Bank by the issue of shares which can be thrown open to public subscription. It would, of course, be possible for the Land Bank to float, say, a debenture loan, but as far as shares are concerned, the Government's object is primarily to make provision for the credit needs of the farmers without considering the making of a dividend. The private shareholder is naturally interested in the dividend, and for that reason it seems to me that the capital cannot be increased by public subscription except by way of debentures. And even if you did have shareholders, their interests would be in conflict with the Government's interests in the matter. But debentures offer one way of getting extra capital. Fixed deposits would, as far as the rural community is concerned, provide a certain amount of money. I think that fixed deposits would give a small amount at present which would tend, no doubt, to increase in the future as the wealthier farmers have the full development of their farms, but at present a very large part of the savings of the farmer goes into further development of the farm.

1396. So that there is very little ready money amongst the farmers?—Coming now to bills, probably the very small number of bills shown here is caused by the fact that this is a new development. The bank has not had the power to issue Land Bank bonds very long, and it would appear from this that they have not yet made use of it. I think that possibly they may be able to get some money in that way in the future, although the low rate of interest they pay will not make these bonds attractive. It is just possible, however, that there might be a development of the bond business if the principle of the "Landschaft" can be introduced—that is, giving a farmer a bond for the amount of his loan at a fixed rate of interest and allowing him to sell that in the open market for what he can get for it. At present a good deal of money is invested at 6 per cent., but the Land Bank will probably get it at 5 per cent. from the Government. They won't get people to take up their bonds at this rate. Then, finally, the Government might, of course, be agreeable to increase the capital fund which they have loaned to the Land Bank in view of the importance for the country's major industry of proper provision of credit. They have never made any loss on money loaned to the Land Bank. If the Government is prepared to increase this capital fund, that will give them the extra money for short-term credit.

1397. And what would be the connexion with the central bank? Can the central bank be utilized to give advances on those bonds and rediscount those bills?—At present the central bank may rediscount bills, but it must not exceed 20 per cent., and then the bills must not have a currency of more than six months.

1398. Ought this to be extended, in your opinion?—I am very doubtful, because, as I have already said, I think it is better to confine the central bank to its main function and not to give it duties which may be in conflict with its main duties. It will militate against the functions of the central bank, because the
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Professor John Edward Holloway.

central bank gets, say, at a time of stringency, demands from all the commercial banks on its reserves. If the central bank assists the Land Bank, it may prejudice the existence of some other banks in a period of crisis. On the other hand, of course, that deprives the Land Bank of a measure of support which all the other banks enjoy. This means that the Land Bank would have to be put into a very strong position in regard to its capital, and it should not accept deposits on current account.

1399. Then that means that the Land Bank must really be strong enough to be self-contained?—I think that the Land Bank should not re-discount those bills with the central bank in order to leave the central bank free to bestow all its attention on its main function of supporting and controlling the commercial banks. But from this reasoning also follows the conclusion: first, that the capital of the Land Bank should be sufficiently large to make it a self-contained institution independent of support from the Reserve Bank; secondly, that the Land Bank should not receive current deposits. There is, of course, no objection to its receiving deposits fixed for a considerable period.

1400. Do you think it advisable, since you consider that the central bank as it is now constituted should not grant credit to the agricultural people, to establish a new central bank as a State bank, which would have the duty of providing short-term credits for agricultural purposes?—In the first instance, I do not think that that has anything to do with the normal functions of the central bank, which is a bank of control. Secondly, it seems to me that the Land Bank makes sufficient provision within the limits of the powers given to it for long-term credit for agriculture, and if there are any ways, or should there be in future any ways, in which long-term credit should be provided for farmers which the Land Bank has not the power under existing Acts to grant, the question should first be considered whether there is anything in the constitution of the Land Bank antagonistic to granting it the extended powers to do this extra work. In any case, the central bank is not the proper body to provide this sort of credit, and the Land Bank should be given the first consideration before any new bodies are called into being for carrying out these functions. Finally, as far as short-term credit is concerned, I think that the question should be carefully gone into whether an extension and reorganization of the Land Bank could not be brought about which would place it in a position to provide for this most urgent need of the farming community.

1401. I have to thank you for your very interesting and constructive evidence, especially as regards the question of agricultural credit. Would you only ask you whether you have any further observations to offer?—No, I don't think I have anything to add.

MR. FREDERICK CLAUD STURROCK (examined).

1402. (Professor Kemmerer,) In giving testimony to-day, are you speaking for yourself or are you representing some organization?—I am speaking for myself at the moment. There has not been time, unfortunately, to get the confirmation of the Associated Chambers of Commerce, for which body I might speak. But we have arranged that if they endorse my views, you will be advised of that. Or, if they want any modification of my personal views, you will also be advised of such modification as they desire.

1403. You are speaking freely, without any restriction, for yourself?—Yes, quite.

1404. We handed you a day or so ago an outline of certain questions intended to bring before you the main problem which confronts this Commission, and we understand you have prepared a brief memorandum in response to those questions?—Yes.

1405. It is not our intention to limit you in your testimony to those specific questions, and the memorandum which you have prepared will probably not be included in our published records.
Mr. Frederick Claud Sturrock.

So I will ask you to answer the questions with the understanding that your replies will go into the record in place of this particular memorandum. That gives you a freer hand.—Yes.

1406. The first question I would like to ask is one that brings the whole subject definitely before us: Are you in favour of South Africa’s returning to the gold standard 1st July, 1925, without any restrictions and regardless of what action may be taken between now and then by Great Britain with reference to the return of sterling to gold parity; in other words, are you in favour of permitting the legislation which now exists in South Africa, and which provides for a return to the gold basis 1st July next, to go into effect at that time?—Speaking generally, I am very definitely in favour of South Africa returning to the gold standard. I am in favour of South Africa returning to the gold standard on 1st July, 1925, if such return is not likely to cause any serious inconvenience in respect of exchange matters or other matters which might make it difficult for commerce to function. Reference is made as to whether we would like it without any restrictions, I don’t see any reason why restrictions should necessarily be imposed. If there are such reasons, they are not known to me. And I do wish to qualify my desire to return to gold in July, 1925, to that extent, that if it is necessary to impose restrictions in any direction, and if these restrictions are likely to have any serious effect on the economic working of our commercial system, then I would prefer to defer the return to gold until such time as these restrictions could be dispensed with.

1407. You do not see the necessity for any restrictions yourself?—I see no necessity for any restrictions. In their absence, I am entirely in favour of returning on 1st July, 1925, with, perhaps, this qualification, that if England is definitely intending to return within twelve months of that time, it might be desirable to work with her.

1408. How would you know whether England was definitely intending to return to a gold basis in twelve months?—Only if one had a definite declaration from England to that effect. In the absence of such declaration nothing could be assumed.

1409. A definite declaration would need to be a pronouncement by the present Government in Great Britain, or would you demand, as a gentleman did in speaking of this matter yesterday, not only a declaration, but the passage of an Act by Parliament?—I personally would be quite satisfied with a definite declaration, either by the Prime Minister or the Chancellor of the Exchequer, to the effect that it was the definite intention of England to return to the gold basis on or before, say, June of 1926.

1410. In that case, you would think it desirable to postpone the date for the return of South Africa, and in the meantime to follow sterling?—On the whole, I think I would. I am mainly concerned to get to the destination. I don’t really mind whether we go by railway train or ox-wagon.

1411. Aren’t you concerned as to the time you get to the destination?—Within reasonable limits, of course. The point is, if there is likely to be the slightest inconvenience caused as a result of going a few months earlier than England, then I say, let us wait and have no question of inconvenience.

1412. Do you think there is any considerable probability that the present Government in England will announce within the next few months a definite intention to return to the gold basis within the time you mention?—I am afraid I see no probability at all.

1413. Isn’t it true that if this Government is going to return to the gold basis within about six and a half months, that it is necessary to make preparation for that return, and to come to a decision at a fairly early date in order to be prepared to meet the obligations connected with such a return to convertibility?—Yes, I agree that it is necessary that steps should be taken without much delay.

1414. Do you think it would be desirable for this Government to make a definite announcement at an early date of its intention to return 1st July next year in case it is favourable to return at
that date; I mean a definite announcement, a substantial period in advance, so that the public would know what to count upon?—Yes, I think it would be. I think uncertainty in this matter is not desirable.

1415. You say you are in favour of returning unless the dangers and difficulties incident to exchange fluctuations would be a serious obstacle. Now that is just the question we must answer: If this Commission is to make a definite recommendation, and if the Government is to announce its decision to the public some months in advance so that the public will know what to count upon, and the Reserve Bank and the other banks will know how to prepare for the return to gold, if such a return is to be made, we must resolve that problem and decide definitely whether or no the advantages would offset the disadvantages. That is the very definite question. This Commission cannot say to the Government: "We think you should return to the gold basis provided the advantages of returning offset the disadvantages." We must say Yes, or No?—Quite.

1416. That is what we want your judgment on?—Personally, one feels that one is sailing on rather an uncharted sea. But I do feel that there won't be any very material difference in the situation to what it is to-day. If we go back to the gold standard, my own opinion is that the exporter will still be handicapped in the matter of exchange, and the importer will have a certain advantage.

1417. Do you think that the handicap to the exporter, and the advantage to the importer, are permanent?—They are not permanent in any sense. My own view always has been that any advantage the importer gets is handed on to the community and offsets any disadvantage from which the exporter may suffer. Whether this particular phase of the question is likely to be permanent or not depends to my mind very largely upon what the situation in respect of sterling is. Economically, we are very closely allied in this dominion to England, and it is impossible that any serious depreciation of English currency won't have a very definite effect upon us. We will remain stationary, we will be anchored, but sterling will not be anchored; and obviously if there are serious differences up or down, it will make a difference to the relationship of the two currencies. And in the event of further depreciation of sterling, it might be that this state of things would remain for a prolonged period. Nothing is permanent.

1418. But the point I am trying to bring out is this: Are these advantages and disadvantages to the importer and exporter respectively that are claimed to result from differences in exchange, advantages and disadvantages due to a positive difference in exchange, or are they only due to the movements of exchange? For example, we will say £100 South African to-day will buy £100 sterling by cable. Let us suppose that South Africa should decide to change its currency system, its monetary unit, and change it in such a way that the pound here would be equivalent to, say, about four dollars American money. Your exchange then with the pound, if the pound sterling were on a definite gold basis, would always be different from what it has been in the past?—That is so.

1419. After you had once stabilized on this new basis, your price level presumably would be something like 487/400 of the price level of Great Britain, or nearly 28 per cent. higher, because your pound would be only about 4 4/5ths as valuable in terms of gold as the pound sterling?—Yes.

1420. After you had once adjusted to that basis, would there be any permanent advantage that the exporter would obtain through that lower value, or any permanent disadvantage which the exporter would suffer?—No. I see the point you make: once you have got stability of conditions other things adjust themselves. The difficulty about the present situation is that these fluctuations in exchange last long enough seriously to handicap people without any return balancing through the imports. Therefore, stability
is the essence of the question. If we can get a stable exchange definitely at a fixed figure for all time, then there is no advantage or disadvantage.

1421. When sterling exchange goes to a discount in South Africa, the movement toward an increasing discount is favourable to the importer?—Yes.

1422. And is unfavourable to the exporter? When it moves toward a premium, or to an increasing premium, the movement is favourable to the exporter and unfavourable to the importer?—Yes.

1423. So when one party is benefiting, the other party is suffering?—Yes.

1424. And that is true continually when the exchange rate is fluctuating?—Yes.

1425. So to a considerable extent the disadvantage of the exporter is offset by the advantage of the importer, or vice versa?—Yes.

1426. Furthermore, no one wants to export, I suppose, from South Africa unless he is going to receive some pay for the exports?—No.

1427. And the pay for the exports comes in the form primarily of goods that are imported?—Yes.

1428. So that, in the long run, if you export more you must import more?—Yes.

1429. It is a question then of the adjustment of the values of the things you export and of the things you import; but unless you are getting or giving something for nothing the two must balance?—Yes.

1430. On the other hand, isn't it true that if you gain stability of exchange with, Great Britain through following sterling that is moving rapidly either upwards or downwards, you are at the same time paying the price of instability with all of the other exchanges that are not tied to sterling?—Yes.

1431. And, furthermore, I suppose it is true—if I am not making a correct statement, I would be glad to be corrected—that if you could take the total business that is done in South Africa of all kinds, the major part of it would be domestic business rather than foreign business, would it not? That is to say, internal transactions of all kinds would exceed the total transactions represented by exports and imports?—I would not like to answer that offhand. I should have grave doubts as to whether domestic business would be substantially greater.

1432. All of your goods that are exported have to be produced and handled in the country. Most of the goods imported into the country are exchanged a number of times before they reach the final consumer. And these are purely domestic transactions. I haven't seen any figures on that, but I have been told that in recent years you have been becoming more and more self-sufficient, and have been consuming relatively more of your own products than before. In the United States it is often estimated that 90 to 95 per cent. of our total trade is internal trade. I appreciate that a much smaller percentage doubtless would be internal trade here. But I am wondering if your internal trade as a whole probably would not exceed very much your external trade?—It is difficult to say, but I doubt it.

1433. The point I have in mind is this: You have in this country a very substantial amount of domestic business and of internal contracts. The value of the monetary unit in South Africa, as in any country, ought to be stable. There is a great advantage in having stability of value?—Yes.

1434. The value of any monetary unit is really expressed fundamentally in what it will buy, that is, in its purchasing power. That is what you want money for; to buy goods with?—Yes.

1435. If you make a contract agreeing to pay so many thousand pounds sixty days hence, or one year hence, or two years hence, or five years hence, there would be a great advantage in being reasonably sure that your pound would have practically
the same purchasing power at the maturity of the contract that it had at the time the contract was made?—Yes.

1436. If sterling moves up and down in its value as compared with gold and as compared with goods in general, and if you tie up to sterling and move up and down with it, you will not only lose stability with reference to the exchanges on gold standard countries that you might otherwise have, but you will lose stability in your own transactions; and credits, that is, your currency, will be much less stable in value than it would be if on a gold basis, except in the very remote contingency that gold itself should prove during this time to be even more unstable than sterling—that is so.

1437. In that case, then, even if you gain stability in much of your foreign trade, by tying up with sterling you would be likely thereby to lose stability in your internal trade and in all your internal contracts?—Quite. I don't wish it to be thought that I regard tying up to sterling as likely to give us stability. I think it is the reverse of that.

1438. You think stability is very desirable?—Stability is very desirable as far as any currency is concerned.

1439. The South African pound to-day, as measured by the banks' buying rate for cable transfers, is worth, roughly speaking, something like 3 to 3¼ per cent. more than sterling in terms of gold?—Yes.

1440. And sterling to-day is within about 3 to 3¼ per cent. of gold parity?—Yes.

1441. In other words, as measured by the banks' buying rate on London, and the cross-rate between London and New York, your South African pound to-day is practically at parity with gold?—Yes.

1442. Sterling a year ago to-day was, roughly speaking, about 12 to 13 per cent. below gold parity?—Yes.

1443. So that it has advanced something like 9 per cent. during the past year?—Yes.

1444. If it should advance at that same rate between now and 1st July next, sterling would be at parity some time before the time that the present legislation restoring the South African pound to a gold basis would come into effect?—That is so.

1445. If it should advance at only half that rate, sterling would be practically at parity by 1st July, would it not?—Yes.

1446. The main danger would seem to be then that sterling might turn and go the other direction?—Yes.

1447. If it should, South Africa would be required, if it decided now to tie up with sterling, to follow sterling on its downward course. Is that true?—Yes.

1449. That would mean a rise in prices in this country?—Yes.

1450. And a rise in the cost of living in this country?—Yes.

1451. Would it mean also increasing demands by labour for higher wages to compensate for the rise in the cost of living?—I should say so inevitably.

1452. How would labour express its desires to obtain these higher wages? Would the employers of labour immediately say to labour: "Well, we favoured tying up with sterling, and prices have gone up. The consequence of that policy has been that we have had to inflate. As a result the cost of living has risen. We don't want you labouring people to suffer, therefore we will raise wages promptly and continually in proportion to the rise in cost of living." Do you think the employers in general would take that position?—I don't think so. There would probably be a considerable factor of lag in the actual grant of an increase in wages.

1453. Is it also probable that the employers would resist that demand as long as they could?—Yes, I think it is.

1454. But if the rise continued long, and was very substantial, do you think the employers would be able to resist?—They would
only yield within the limits of the economic possibilities of the situation. If, as the result of such a movement, they were getting a very high premium on the gold, for instance, the gold industry might feel inclined to be generous to their employes. But other industries might not benefit to the same extent, and might have to resist or close down.

1455. If such a situation developed, and finally, with a considerable lag, and as the result of labour agitation and labour troubles—which I assume you think would take place before you reached that point—labour should get an advance in wages sufficient, or partly sufficient, to allow for the increase in the cost of living; and if then England, in carrying out its declared policy of returning to gold sooner or later, should find itself in a position to turn about and again carry out a policy of deflation towards gold parity, South Africa would be compelled to follow her in her deflation policy?—Quite.

1456. On the movement toward an increase in the gold value of the pound?—Yes.

1457. That would mean a fall in prices and a fall in the cost of living?—Yes.

1458. Would labour in that case say to the employers: "We received an advance in wages a while ago because of the increase in the cost of living, and now we willingly, and without opposition, concede that our wages shall be reduced proportionately to the decline in the cost of living"?—No, there would be the same factor of lag; only that in the case of the downward trend the lag would probably be of much longer duration.

1459. Would it be likely to lead to labour troubles?—It might, here and there, where an employer was compelled to reduce wages. He would probably be able to do so only after a certain amount of trouble.

1460. I don't know what your experience is in this country, but I think I can say that our experience in the United States is that labouring men would fight more vigorously against a reduction of wages than they will fight for an advance in wages?—Yes. Put it this way: Labour will resist a reduction of wages much more strongly than the employer is able to resist an advance.

1461. So that in case you should tie up with sterling, and in case sterling should move downwards substantially and then turn around and move upwards, you would be likely to bring upon the country considerable labour difficulties in the adjustment in each direction?—That is so.

1462. In the case of the movement in each direction there would always be one group of interests that would suffer as far as the foreign trade was concerned, and another group that would benefit?—Yes.

1463. If England continues moving towards gold parity at the pace it has been moving lately, there is little or no difficulty. Even if she stays where she is now you are practically at a gold parity, and all you would have to do would be to clinch that gold parity. The real question is, suppose England should turn round and begin to go the other way, then what is this country to do? And this country must decide, apparently now, or in a very short time what it is going to do in such a contingency?—Well, I think I can say most emphatically that we would favour getting back to the gold basis. Any subsequent developments will be, to a certain extent, gradual developments. The point I make is that we don't like a sudden change. A change spread over a period of months does not affect the commercial community very much. Stocks are worked off, and all the other things adjust themselves as time goes on. It is a serious matter, however, to make a serious change of a violent kind. For that reason we think it is very desirable that we take the opportunity, when we are as near as possible to parity, to clinch the matter, and we are quite prepared to face any subsequent difficulties that may arise through the depreciation of English sterling in relation to our own. That will, presumably, be a fairly gradual process.
Mr. Frederick Claud Sturrock.

1464. The gold value of the South African pound has not varied greatly, has it, for a good many months?—No, I don't think so.

1465. The exchange rate on London has been fairly constant for some time, and the gold value of the South African pound has been above that of sterling?—There has been a tendency for a slight improvement lately.

1466. I want to get this clear: Would you be opposed to making any commitment now to tie up with sterling?—Yes; undoubtedly.

1467. Would you be opposed to following sterling if sterling should turn around and begin to depreciate in terms of gold?—I would.

1468. Then I take it you are in favour of maintaining the advantage that South Africa has already obtained, if it is an advantage, of practically reaching gold parity?—Yes.

1469. And you would not be in favour of giving it up?—I have no desire to give it up. I would rather see, naturally, English money rise to our level. But if there is to be any adjustment, then don't let us go down to their level. Let them endeavour to come up to ours.

1470. You think it is desirable for the Government to make its decision in this matter early, and to announce definitely to the public what it intends to do, so that the public will know what to count upon?—Yes, I think so. I do feel, too, although we are a relatively small factor in the situation, that our example might do something to make England realize that she had better get back to parity as well.

1471. Do you think definite action on the part of South Africa will give a little nudge, as it were, to England and encourage her to get back?—Yes, I think it would. There is a danger that England might get into a serious position if everybody else stabilized their currency and she refrained from doing so. Take the case of Canada, for example.

1472. Canada is practically stabilized now?—Yes.

1473. India, as I understand it, has had a fairly stable exchange with the American dollar for some time. So she is not following sterling, and is very nearly stabilized on the basis of the equivalent of 16 pence gold to the rupee?—Yes.

1474. Australia has not yet stabilized, but her pound has considerably more value than sterling and is not tied up with sterling, is it?—No.

1475. Egypt is tied up definitely with sterling?—Yes.

1476. The great bulk of Great Britain's trade at the present time is with countries that are not tied up with sterling, is it not?—Yes, that is so. I think it does mean a definite loss to England that she has to trade with those countries. It must in the end mean a loss to her.

1477. For generations London has been recognized as the world's money market centre?—Yes.

1478. The world's greatest financial centre?—Yes.

1479. Do you think that London has gained that position, and maintained it, to any extent because England was one of the earliest countries to establish a free gold market and to maintain her currency on a gold basis?—I firmly believe that. I believe that is the universal opinion of most economists, that that was the real start of England's being the centre of the money market.

1480. In the field of world competition for trade, and the field of world competition in finance, do you think London suffers any by reason of the fact that she has been off the gold basis for some time?—It is not easy for people like myself to say, but judging in a perfectly superficial way, it is surprising how London appears to have retained her exchange functions, her clearing-house functions, in spite of the fact that her pound has not been on the gold basis, or ever stabilized.

1481. You think it is in spite of that fact? My point is, has that fact been a real obstacle, a real difficulty, she has had to overcome, or has it, been an advantage to her to be on a paper basis
in this competition?—It certainly has not been an advantage to
her from an international point of view. The present situation
will last a certain time; the inertia attaching to such vast organi-
zation would keep the money centre in London. But the tendency,
if London does not stabilize, will always be for it to move in the
direction where more stable conditions exist. If London to-day were
the only country unstable, probably she would suffer more than she
has done.

1482. Do you see any signs of the world’s moving back toward
a gold basis?—It is very difficult to say whether it is actually
moving back. All that one can say is, I think, there is a definite
world-wide recognition of the necessity for getting back to stability,
and that the issuing of paper money ad lib. is a very dangerous
and costly thing in the end. But whether there is a definite
movement back to the gold basis is very difficult for me to say.

1483. When you mean stability you don’t mean necessarily
stability with gold?—Not necessarily.

1484. Do you see any sign of the world’s moving toward stability
with sterling on a paper-money basis?—That, I am afraid, I
couldn’t answer. My knowledge is not sufficiently intimate. There
is experience, however, in Europe itself, where definite steps have
been taken to control the currency. I believe in Czecho-Slovakia,
for instance, there was rather a good example of a determined
effort being made to get a monetary system on a sound basis, but
how far it is related to gold, and how far it is related to paper,
I am afraid I don’t know.

1485. Are there any other points you would like to make? We
want you to give us your message, whatever it is?—I think, really,
as far as the essential message I have to give is concerned, I have
already given you as clearly as I could; that is to say, we are very
definitely determined to get back to gold if we can, not only
because it is the right thing to do economically, but because, of all
countries in the world, we should be the first country to be on gold
and set an example to other people.

1486. If South Africa should return to the gold basis next July,
and refuse to tie up with sterling, do you think the sterling
exchange rates would be likely to fluctuate more than they have
in recent months?—The presumption is they would fluctuate less.
At the present time we have two independent factors both fluctuat-
ing, and it seems to me if you take down one of these you are going
to reduce the likelihood of fluctuation by 50 per cent. any way.

1487. You say that the exchange rate represents the ups and
downs of the two currencies that are being compared, and that in
case you stabilize one of them, it would only represent the ups
and downs of one of them?—Yes.

1488. Of course, gold itself is not perfectly stable in value, is
it?—Probably not. But it is stable in the sense that it isn’t liable
to sudden fluctuations in quite the same way as other forms of
currency.

1489. You think you would probably have a more stable sterling
exchange than you have had in the past?—Yes.

1490. Sterling exchange in this country seems to have been
pretty stable in the last few years, considering the great infre-
quency with which the banks change their rates?—But on the other
hand, when changes have been made, they have sometimes been of
considerable magnitude, both up and down.

1491. You think changes would not be any more frequent on
the new basis, and, perhaps, would be less than they have been.
You believe that the probability is they would be less?—It may be,
of course, that at the present time, because the two fluctuate simul-
taneously, that there is no difference shown. In that case, ours
being stationary, it might provoke more variation owing to our not
following sterling as we are doing to-day.

1492. You think it is possible that South Africa may be to some
extent tied up with sterling now, and therefore the ups and downs
in the value of sterling might not be reflected in the South African
exchange?—Quite.
1493. There is no convertibility of the South African pound in sterling at par or at any other rate, is there?—No.

1494. If there is any tying up of the two exchanges, then it would be due to what?—It is difficult to say. The banks have very considerable sterling balances. It might be that any serious fluctuation might prompt them to take action in respect of exchange rates which otherwise they would not need to take. I am not able to say whether this is an important factor or not, but I think that as a factor it is there.

1495. In case South Africa should tie up with gold, and in case sterling should fluctuate rather widely in terms of gold, it is possible that the banks would not keep the rate so stable with sterling as much as they have in the past?—That is so. It will involve a certain amount of responsibility on the banks in dealing with their London balances. The more difficulties we put in the way of the big banks, the better. They, too, will bring their influence to bear on London to bring London exchange to parity.

1496. In countries that deal extensively with other countries having different currency systems and different standards of value it is a common thing for banks to provide facilities for forward contracts in exchange, so as to enable the exporter whose main business, we'll say, is to sell goods and not to speculate in exchange to know in advance when he is buying his goods and making his prices for sales in a foreign country just how much of that local money he can get for the funds coming to him abroad; and likewise so as to enable the importer, who knows what his local market is and who knows pretty well the price that he will have to pay abroad for his articles, to know also how much he will have to pay in his local money for the foreign money with which he must pay for his goods some months in advance. If the exporter knows in advance how much he will realize upon the foreign money he is going to receive, and if the importer knows in advance how much he will have to pay for the foreign money he must buy, each party benefits by this advance knowledge and each eliminates to a very large extent any risks or losses that might otherwise result from a fluctuating exchange. Then, of course, it is a common thing in those countries for the banks, who don't wish to speculate for a rise or a fall in exchange, to cover their forward contracts for the purchase of bills by forward contracts for the sale of drafts or cable transfers?—Yes.

1497. In that way the banks hedge, and eliminate to a large extent the risk incident to a fluctuating exchange, and they make their profits in commission in each direction, or by small differences between buying and selling rates?—Yes.

1498. To what extent do the banks of South Africa make such forward contracts?—I don't know that the banks in South Africa do much of that at all. The South African merchant who requires to secure himself, say, in America, or in any other country, against possible fluctuations in price before the date of the shipment of the goods he has to his order, usually proceeds in the direction of buying dollars against it at the time he plans the business.

1499. He buys sterling here and then buys dollars with the sterling?—It is usually done through London.

1500. It is a double transaction. The banks make a profit on each of these transactions?—Oh, yes, it costs him a certain amount to do it.

1501. Will the banks here sell him dollars direct?—The banks would probably do a little business. As far as I know it is a restricted business that they do here. The banks here don't have dollars to sell as a rule.

1502. Why shouldn't they? Both the National Bank and the Standard Bank have a New York office. If they have funds in London, they can always get funds in New York by the same method as anybody else, and in New York they buy South African bills against American exports to South Africa?—There is no reason why they should not buy and sell directly New York exchange. I don't think they do it, as a matter of fact. I would not like to
say what the reason for it is. Certainly the banks do not encourage the sale of foreign currencies here.

1503. If they can require any merchant who wants to protect himself against exchange fluctuations in the way you mention to buy sterling, and then, having got the sterling to buy dollars in London, making profits on two transactions, it is very natural that they should encourage that roundabout method. It is more profitable to them?—We are not in this country very closely in touch with the American market. Our working day is practically over before the American working day begins. I take it there is just the possibility of incurring losses should there be a fluctuation in the interval in putting the transaction through. But I don't know for what reason the banks here don't do it. But it is not done, and the average merchant makes these arrangements through London as a rule.

1504. Do many merchants protect themselves by making these advance contracts in dollars?—Not so much to-day, but there was a period when you always did it. Very shortly after the war, when fluctuations were pretty considerable, and one never quite knew where one was, if the contract amounted to any considerable sum at all it was usually covered in that way. But probably less is being done to day, because one feels that the probabilities are not so great of a violent fluctuation.

1505. If this country should return to the gold standard independently of Great Britain, and if sterling should fluctuate more than it has been fluctuating recently as a result of the change, the situation might return in which it was highly desirable for a merchant here selling goods in Great Britain to protect himself from losses that would be due to the ups and downs of sterling exchange?—That is conceivable.

1506. If this country should return to the gold standard independently of Great Britain, and if sterling should fluctuate more than it has been fluctuating recently as a result of the change, the situation might return in which it was highly desirable for a merchant here selling goods in Great Britain to protect himself from losses that would be due to the ups and downs of sterling exchange?—That is conceivable.

1506. In that case, do you think that the merchants themselves would be favourable to the opening of facilities on the part of the banks for making forward contracts of the type that are made in so many other countries?—Yes. Whether the demand would be great or not would be difficult to say. At the present time the merchant has, roughly speaking, 3 per cent. in hand, and the probability is that he would refrain from crediting his customer with that 3 per cent. He would keep that 3 per cent. as a sort of insurance against a contingency of a change before his contract has matured; and it is only reasonable that he should. I would not like to say that he keeps the 3 per cent., because, as I say, that is out of all proportion.

1507. Competition forces an adjustment sooner or later, does it not?—My opinion is that to-day, the exchange being what it is, that 3 per cent. may be a credit to some extent, because 3 per cent. is a very big figure. But I am quite sure that the average merchant keeps a portion of that against a contingency of a change before his contract has matured; and it is only reasonable that he should. I would not like to say that he keeps the 3 per cent., because, as I say, that is out of all proportion.

1508. I suppose, as a general proposition, any merchant does not pass on to the people with whom he deals, whether they be other merchants or consumers, any profit of that kind that may come to him until he is forced to do so by competition?—Competition is the best adjuster of prices.

1509. Is competition among merchants here very strong?—Very severe, indeed. I think that can be seen by the fact that in this country the costs of commodities generally are very much below what one would assume they would be, having regard to the position of our currency to-day.

1510. When you speak of competition, do you mean competition between wholesalers for the retail trade or competition among retailers for the public's trade, or do you mean both?—Well, both. It is not very easy to say that you can have competition in the one without having competition in the other.

1511. You mean to say then that the competition here among wholesalers is very keen and also that among retailers?—Yes; probably a shade keener among the retailers than the wholesalers, but keen in both cases.
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1512. So that if it is a shade keener among the retailers than among the wholesalers, then any advantage that the wholesalers might be forced in time by competition to pass on to the retailer would be passed on to the consumer perhaps even more quickly?—Yes.

1513. Is there any tendency in this country for retailers to get together and agree among themselves for the maintenance of prices?—No, I don't think so. There may be local movements, but there is certainly no movement of a general kind at all.

1514. Do you know of any local movements of any consequence?—No.

1515. Is there any effort on the part of the wholesalers to get together and agree upon prices?—Not that I know of. I believe East London had an organization—I don't know if it is still in existence—which did something of that sort, but I don't know much about it. If you are interested, it would be a matter for investigation down there. The secretary of the Chamber of Commerce, East London, would be able to tell you about that organization.

1516. The main thing we are concerned with is as to whether there is any widespread movement in an effort to maintain prices?—I am quite sure there is not. If there were, it is proving singularly unsuccessful.

1517. In the trade between wholesalers and retailers, what is the customary practice as regards credits, both the form in which the credits are expressed and the times when the payments are due?—The credit system in this country is unfortunately very bad. We have never been able to establish a good system of billing against credits. You find, in effect, that the larger wholesalers have more or less standing credits with large numbers of retailers and retail stores all over the country; that is to say, they will give a definite credit of £10,000 to a particular store, and that credit will more or less remain constant.

1518. A sort of privilege to overdraw their account to a certain amount?—Yes. And there is no finality to it. Naturally, if it goes up it is noticed and may be reduced; but there is no definite period at which the wholesaler can turn round and say this £10,000 is liquid at a certain date.

1519. That practically means that the wholesaler is providing a substantial amount of permanent capital to the retailers with whom he deals?—Yes. The net result of that has been the establishment of far more retailers than the population justifies. I think it has been calculated that one in every ten of the male adults in this country is a retail dealer. I don't know whether the calculation is a correct one or not.

1520. That is one of the reasons why this competition of which you speak is so strong?—Yes. Anybody can get credit here.

1521. That puts the retailer, to a considerable extent, does it not, in the power of the wholesaler with whom he deals?—Yes. There was at one time in this country a system of so-called tied houses. Some of the big wholesalers really established a system of tied houses. They would definitely do the buying for these stores. To-day the system of tied houses is practically eliminated.

1522. Explain, please, a little more what you mean by "tied houses"?—A tied house is one wholly run by the wholesaler; that is to say, he did all the buying.

1523. It isn't owned by the wholesaler?—Not necessarily owned by the wholesaler. It is always in somebody else's name. In effect he used to run the store. Nothing was bought except what was bought by him. He practically financed the whole business. The system held more or less strongly until the war period. Quite a number of these storekeepers were able to buy themselves out during the war, and it has been the policy of the wholesale houses to do away with tied houses. Curiously enough, tied houses didn't seem to suit them. The mere fact that they were dealing with a tied house in the neighbourhood prevented others from coming in to them. They would not deal with the wholesaler because he was competing with them.
1524. So the practice was more or less unpopular even among the wholesalers themselves?—Yes.

1525. Was it unpopular among the retailers?—Yes, the retailer doesn’t like to be tied. The result is, while these credits are being given, it means that a certain amount of business must naturally be given to that particular wholesale house—which would probably be given, in any case, to that house.

1526. If a retailer has a substantial lending credit with a wholesaler on open account, which is really due at any time the wholesaler wishes to demand it, doesn’t that put the retailer pretty thoroughly in the power of that wholesaler?—Well, as a matter of fact, it means that the lines for which he has incurred that credit he continues to buy from that wholesaler, but probably that does not cover more than a portion of his business.

1527. Is it ever possible that a retailer may have substantial lines of credits with a number of different wholesalers, and one wholesaler may not know what line of credit he has with other which is really due at any time the wholesaler wishes to demand it?—That is possible. Of course, in that matter the wholesalers are pretty wideawake. They pretty well know what their clients are up to.

1528. Do they get together on that and compare notes?—I don’t think they get together officially in any sense. But the chances are they know pretty well who any given storekeeper deals with, and if he comes along to them wanting a thousand pounds they would probably ring up Mr. So-and-so who, he knows, has dealt with the fellow and ask what the position is. And the other wholesaler would probably be perfectly frank with him. It may be he has decided to curtail his credit, and he has no objection to the other one putting it up.

1529. I understand there has been some effort made recently by the Reserve Bank and others to encourage the use of trade acceptances in place of these open accounts. What is the attitude of merchants generally towards this movement?—It is quite true that Mr. Clegg has appeared, I think, at every congress for the last year or two and given us a dissertation on the question of trade bills. But he will achieve nothing by that. He gets the approval, I think, of every congress by a general expression of opinion, but in actual fact it is very difficult to know what could be done to bring about Mr. Clegg’s policy in that matter.

1530. Would a cheaper rate for discounting bills effect nothing?—No, I don’t think so.

1531. Surely it would: you would not pay 5½ per cent. if you could discount at 4½. One per cent. on a large sum would mean a lot, and a retailer would start grumbling if a wholesaler was not prepared to let him have facilities on a four months’ trade bill?—The question of interest I don’t think enters into it very much, because within a reasonable period of time no interest is charged now to the retailer.

1532. But it is put on somewhere?—It is put on to the profit, obviously.

1533. Your retailer does not realize that he is paying interest on this permanent credit he received?—No.

1534. He therefore has no basis for saying: “I am paying so much for this permanent credit. If I accepted a bill and the merchant would make such and such an interest charge I would be receiving so much less”?—He has no basis to go on.

1535. He acts on the assumption that he is paying nothing for the credit?—He acts on that assumption. Obviously he is paying for it, but he doesn’t know it. The essence of the matter is the education of the retailer. The wholesaler would fall in with it to-morrow if he could, but you must educate the retail storekeeper up to the trade bill.

1536. These accounts must be very non-liquid for the wholesaler. If he wishes to obtain funds from his bank, does he have any method of pledging these open accounts to his bank?—No. The bank would grant him an overdraft on his own security.
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draft?—Not even on a promissory note. I never give the bank a
promissory note. I give them a personal guarantee.
1538. Does the bank, before it grants that, make an investiga-
tion of the standing of the borrower and look into the question of
the character of his credit rating among the various merchants?—
Oh, yes, unquestionably. The banks have been extraordinarily lax,
and many of the difficulties that we are facing to-day have been due
to the laxity on the part of the banks in the past in granting such
credits. But to-day the situation is different, and to-day the bank
will only grant a credit, an overdraft, after an investigation of the
capital of the concern. In other words, I think the attitude taken
by the banks is this, that they are prepared to assist anybody who,
for reasons of sudden drain of his resources, has not the capital
to meet a temporary condition. They will help him. But if he
has no capital at all they will do nothing to give him permanent
capital with which to trade.
1539. In determining the amount of the advances, does the bank
usually make an investigation as to the open credits that the
merchant has on his books with retailers?—That I couldn't say.
On the whole I think they largely go upon the wholesale merchant
himself. A wholesale merchant in asking for an overdraft would
naturally explain why he wanted it. And if he went and explained
he wanted it because he had £100,000 out all over the country, that
would probably be a very good reason for the bank saying: "We
are very sorry. We don't regard that as good enough."
1540. If the wholesaler sells to the retailer largely on this open
account, so that there are no bills passing between the two, and
if the bank—as I understand you—lends largely to the wholesaler
in the form of an overdraft, I don't see just where the paper comes
from which the Reserve Bank is supposed to rediscount for the
other banks or is supposed to buy in the open market?—That
has always been a mystery to others. I don't know whether, as
a matter of fact, the Reserve Bank does discount very much paper
in this country. But if it does, it is not at all clear where it
comes from, unless there are overseas bills.
1541. (Mr. Middleton.) Then the banks finance the wholesaler
in the matter of carrying his stocks for which oversea
bills are
current, and then finance the same goods perhaps to the retailer,
or in the meantime does one set run off? The goods come out from
an exporting firm in London, which usually draws bills for all
shipments?—Yes.
1542. As a rule the wholesaler would have three months' goods
in stock?—Yes.
1543. To what extent would the banks finance the wholesale
merchant's stocks, and what security have they?—To a large extent
the wholesaler is independent of the banker. He gets these credits
on his own capital.
1544. Most of the wholesale merchants have sufficient capital to
carry their stocks?—Most of the bigger ones.
1545. Should they go to the banks, is there any form of security
which the banks could take?—The banks of course do take bonds,
but they are not very keen on them.
1546. General bonds?—Yes.
1547. Is that any protection to the bank?—Very little, but a
certain protection.
1548. Legally?—Oh, it is protection legally—if the goods have
not disappeared in the meantime. That is the whole thing.
1549. They are not in a public warehouse?—No.
1550. So they hold nothing corresponding to the American ware-
house receipt?—No.
1551. (Professor Kemmerer.) You don't have public warehouses
here?—No. The banks do have warehouses. They warehouse with
they might send something to that. But the banks' warehouses
are usually used for goods coming from overseas where the bill has
not been accepted.
1552. A London merchant sends a shipment here to a South African importer. When he ships the goods he draws a bill ordinarily on the importer?—Yes.

1553. Is that generally a bill with documents on acceptance?—Documents are handed over on acceptance of the bill.

1554. The bank, then, has no further protection in the form of collateral security?—No security at all.

1555. Except the names of the parties to the bill?—Quite.

1556. There is no attempt to hold those goods in trust on any large scale?—Do they put them in warehouses and only dole them out to the importer as he needs them on condition that he pays the proceeds over to the bank as he sells them?—No, I don't think so. I have never heard of that here.

1557. As soon as the bill is accepted, the goods are delivered to the importer and he sells them, and then he is under the obligation to pay the bank at the maturity of the bill?—Yes. In my own business we get bills in from London up to about ninety days. I don't think we go beyond. Some firms do. Quite a number of wholesalers go up to six months.

1558. What is the commonest usance on import bills?—I should say ninety days. Mining business is usually done on thirty or sixty day bills. That gives them time to get their money in, and contracts usually run into fairly large figures. This practice gives you time to get money in before you have to pay it out. Some firms actually have a system whereby the banks in London draw upon them a bill and they can nominate the currency of that bill up to ninety days. On acceptance they either pay it at sight or up to ninety days.

1559. That is left to their option?—Yes.

1560. Many bills are as high as six months?—A wholesale dealer would be better able to tell you that. Where an English firm is to some extent supporting a firm out here, they will give them six months' bills to help their finances.

1561. How about the export trade? Your principal exports are gold, diamonds, mealies, and wool?—Yes.

1562. How are those exports financed?—To some extent, of course, in the same way. The gold is financed by the banks. I understand the banks give an advance against the gold received and shipped by them.

1563. They don't buy the gold?—They don't buy the gold, but they give an advance against it.

1564. And then the gold produced here is shipped to London ordinarily?—To the receivers in London.

1565. Who are the receivers in London?—I think it varies. Rothschilds have been the agents, but who takes the gold I cannot say.

1566. They are the agents for the various gold mines out here?—Yes.

1567. The gold is sold them on consignment?—It is handed by them to the Bank of England or to whoever happens to want it at the time.

1568. The gold is not shipped from here by the mining industry to their own people in London and then sold by their own people in London?—I really would not like to express an opinion as to whether it is actually sold to the Bank of England, say, before it leaves here or whether that transaction may be performed on the way over.

1569. Gold that is shipped to India is likewise sold to the agent in London, who orders it to be delivered in India?—Yes. All these exchange operations with India go through London. The banks, of course, only advance a certain proportion of the value.

1570. How about diamonds. Do you know how their shipments are financed?—I don't know anything about diamonds. One assumes, however, that diamonds are purchased here by the Diamond Buying Syndicate and shipped over to London. Diamonds are not an open market in any sense of the term.

1571. In the case of diamonds, they are purchased here by the Diamond Syndicate's representative and shipped by him to the Syndicate in London?—Yes.
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1672. And if there are any bills they are drawn by the Syndicate on the Syndicate—which in America are called "Pig on Pork"?—I don't think there would be any bills. It would be the passing of credits. The syndicate in London would merely credit the people out here with the amount realized. From time to time money would be remitted as required.

1673. It is remitted by the people here drawing on the credits in London?—Yes. Diamonds bring up another point. It is very common, very usual, for merchants, municipalities, and others to do their exchange operations through the diamond mines. They can't do it through the gold mines, because the latter have a definite arrangement with the banks whereby they are prohibited from doing exchange. When I was chairman of the finance committee of the Johannesburg Town Council, we did a great deal of our exchange this way.

1674. You bought your drafts of the diamond mines?—Yes.

1675. You got better rates than you could have got from the banks?—Yes.

1676. How did you divide the profit?—We halved the profit between us.

1677. Is that being done now?—I am not sure, as far as the Johannesburg Municipality is concerned. But it is being done by the commercial houses, and I should assume it is being done by the Johannesburg Municipality.

1678. To what extent would the banks discriminate against people who bought or sold exchange that way in granting to them loans or other favours?—The moment you go to a bank for a favour they remind you of the fact that you have been in the habit of sending your exchange through somebody else and they will expect you not to do it in the future, and you usually give an undertaking not to do it in the future. But notwithstanding that the great bulk of merchants, myself included, never do exchange through the banks, unless some situation has arisen where we cannot get it through our friends. Then we go to the banks.

1679. When you do business directly that way, do the banks have facilities for knowing it?—Here and there they may discover that you have actually done a deliberate operation. They do know that you are doing it, although they might not know with whom you are doing it.

1680. They are likely then to call you upon the carpet and tell you that you had better discontinue this if you wish to obtain advances from the bank in the future?—If you ask for £10,000 overdraft, they would at once say: "We are quite prepared to give you the overdraft, but you know it is up to you to give us your exchange." I don't think they would make it a part of the bargain.

1681. Do you think that attitude on the part of the banks discourages a considerable amount of this sort of business that might otherwise be done?—Oh, yes. We used to do business also with a pretty big retail establishment here, who recently have put up a large establishment in Durban. Apparently the financing of this Durban place has compelled them to rely to some extent on the bank. The last time I approached them they told me they had come to an arrangement with the bank whereby they were not to do it any more.

1682. How do the commercial people view the preferential rate which the banks accord to the mining houses?—The commercial community, as a whole does not realize it, and the few of us who do, object very strongly to the preferential treatment given to the mines by the banks, not entirely because the banks make something out of it, but because we are debarred from using that exchange. That is what we resent.

1683. The bank has a monopoly on that exchange and you are barred?—Yes. I have actually been myself—I don't remember in what connexion, but it was during the war—before the Chamber of Mines urging them to abandon this on the ground that it would pay them better to do so; that if they were free agents in exchange they would do better for themselves than they are doing at the present time. But it has never been possible to bring that about.
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1584. To what extent has the situation, with reference to the exchange business been changed since 1913?—I don’t think there is any material change.

1585. Was there considerable direct dealing between merchants before the war?—Oh, yes; that has always been our custom here.

1586. The banks were not making as large a margin between buying and selling rates before the war as now, and were not giving the preferential rate to the gold producers?—Yes; before the war I think they gave it. I would not like to say when they started it, but I think they were giving it in 1910. There has always been a difference; it may have been ½ per cent. Reuter’s telegraph people also used to do an exchange at a slightly lesser figure than the banks. Exchange used to be done through some of the continental banks. And, indeed, some of our firms were rather badly nipped at the beginning of the war, when war was declared. I know of one case where an English firm of cable manufacturers whose local office had remitted through the representative of a continental bank. I think it was £6,000, and it took them many months to get that.

1587. I understand you deal to a considerable extent in supplies for the mines?—Yes.

1588. To what extent do the gold mines make a practice of keeping substantial stores of supplies on hand?—The gold mines endeavour, as far as possible, to keep as small stores as possible on hand. They only keep what may be regarded as emergency stores required in a hurry outside of a month’s requirements.

1589. They would not keep supplies for more than the amount necessary to meet one month’s requirements?—That is what they aim at.

1590. Has that been the practice for some time?—During the war they got into the way of keeping much larger stocks than that. At that time they found the merchants frequently running short.

1591. That was when prices were tending upwards and it was difficult to obtain supplies?—When it was difficult to get supplies.

1592. The earlier they purchased the supplies the lower the price at which they obtained them when the general tendency of prices was upward?—Yes.

1593. For what length of period did they normally carry their stocks at that time?—One would assume that they carried them for about 3½ months, going entirely upon the figures of the stores carried at that time apart from the allowance you make for the increased value.

1594. When the prices turned downwards, so that the tendency was to enable them to buy at continually lower prices the longer they delayed, their purchases, were they disposed to keep very small supplies of stores on hand?—Yes. The mines were rather exceptional during the war. They pooled their buying arrangements in one central organization. That central organization made arrangements with the Government in Great Britain that whatever they ordered would be passed for preferential treatment because of the necessity of keeping the gold mines going. And the merchants who dealt with that organization got a special order form, which was sent home to the Ministry of Munitions, which controlled all this business, and these goods were passed through to the gold mines; whereas the merchant himself could not have got those goods for his stock. He would not be allowed to have them.

1595. The central organization bought for the gold mines, and got this preferential treatment because it was selling to the gold mines?—Yes.

1596. The gold mines at the present time keep on hand ordinarily only sufficient supplies to cover a period of, say, one month?—Yes.

1597. How long has that been the practice?—I think about 1920 they made a determined effort to release the capital which was then tied up in stocks, and for a year or two they worked these down. It took a certain time to work off accumulated stocks in certain directions, but they have been steadily working
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them down until they have reached the present level. One has to qualify that statement in this way: With certain supplies, such as steel-wire ropes, they always keep much more than a month's supply in case of a breakdown.

1598. How much more?—For winding rope they have spares to the extent of twice their requirements in case of a sudden breakdown.

1599. That would mean keeping on hand supplies to cover several months?—Oh, yes; in the case of wire ropes, perhaps enough to cover the mines for twelve months.

1600. That is the exception?—Oh, yes; these are exceptional things. There are a number of things like that which they do keep on hand.

1601. Have you any idea what proportion of their supplies that would represent?—Between that and zinc and one or two other things they always keep in considerable quantities, that would be, I think, about 25 per cent. of their requirements.

1602. I gather from what you say that the mines during the period when prices were rising kept supplies on hand to cover a longer period, and in that way not only gained greater independence in connexion with the market, because of the difficulty of obtaining goods, but also gained in buying at lower prices.—Yes.

1603. On the other hand, since prices have been moving downwards, they have bought supplies on a much narrower basis, and they have not lost during the decline in prices anything like in proportion to what they gained on the rise?—Quite. They also came to an arrangement with the local merchants during the war that the merchants would not charge them for their goods on replacement value but only a fair profit on these preferential goods. For the most part that was carried out and carefully checked by the Chamber of Mines. They bought extremely cheaply at a time when most people were paying considerably more.

1604. There has been considerable discussion with reference to the kinds of money in circulation at the present time, the denominations of the money, etc. As a merchant, do you find any considerable demand here for a 10s. note?—Yes; there I can speak for the commercial community, because at the recent congress at Harrismith they passed a definite resolution urging upon the Government the desirability of re-establishing the 10s. note.

1605. Have you had any experience that tends to show that the 10s. note is unsatisfactory from the standpoint of the quality of the note or from the standpoint of sanitation?—The 10s. note that was in circulation here for some time was a very bad note; very bad paper, which cracked very easily. All our notes are extremely dirty in this country. We don't seem able to keep clean notes. But if the 10s. note was printed on the same paper as our pound note it is printed, there is no reason why it should not be a perfectly satisfactory note.

1606. (Mr Middleton.) It would be equally dirty?—It would be equally dirty.

1607. (Professor Kemmerer.) But it would be durable and satisfactory from other points of view?—Quite; and it is a very useful note to have.

1608. In some countries they have the practice of washing notes at frequent intervals, and in that way making them more sanitary and cleaner. Has there been any effort to do that in this country?—Not that I know of. That, of course, would be for the banks to do.

1609. Do you think the public would welcome that idea?—I am sure of it.

1610. Has the half-sovereign proved satisfactory as a coin in this country?—It is such a long time since one has been one. I think it was quite a satisfactory coin. It is quite certain that there is some denomination required between the half-crown and the sovereign, because to carry many half-crowns in your pocket is a physical inconvenience.
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1611. Do you think it would be desirable to have a fairly liberal circulation in this country of both 10s. notes and half-sovereigns?—Yes.

1612. (Mr. Middleton.) You want them both?—Well, if you have the half-sovereign it would save the necessity for the 10s. note.

1613. (Professor Kemmerer.) Do you think it would be desirable to meet this need of a denomination between the denominations of the half-crown and the half-sovereign by means of a four-shilling coin?—No; personally I don’t think so. I believe it has been argued that the natives like a four-shilling piece, but I don’t know about that. It is not a convenient form of coin either on account of its weight and size.

1614. From the standpoint of the white population you don’t think there is any particular demand for a four-shilling piece?—No; I don’t think so.

1615. Do you think, if the natives desired such a coin it would be good policy for the Government to coin it primarily for circulation among the natives?—Personally, I am not in favour of any further coinage above the half-crown and 10s. I think that meets the needs of everybody. I don’t know on what ground the native wants a four-shilling piece. There is no reason why he should not take two two-shilling pieces.

1616. There has been some discussion of the desirability of having a five-shilling piece in the form of a fiduciary gold coin; that is, a gold coin containing less than its full value in gold. What is your judgment with reference to the desirability of such a coin?—No; I personally dislike the idea of any gold coin being anything but a standard coin, a coin of full gold value.

1617. Why do you dislike it?—Because, after all, a great deal of the virtue of gold as a currency depends upon the fact that gold has always got a standard value in its coinage form; and the moment you start to debase it even for a five-shilling piece, it is opening the door to the debasing of other gold coins. The objection I have to debasing any gold coin is an instinctive one.

1618. If the Government should issue fiduciary gold coins, say, for five shillings and ten shillings, the Government would make a profit, and it needs the money?—Let them coin in silver if they like.

1619. You don’t favour a fiduciary gold coin?—I know the Treasury would like to have them.

1620. (Mr. Middleton.) I don’t think you are correct in saying the Treasury would like to have them. The desire was to get rid of an uneconomical 10s. note.—The 10s. note was uneconomical because it was such a bad note.

1621. But you are hardly justified in incurring an economic loss on the 10s. note if it can be avoided?—That is so. I didn’t make my remarks about the Treasury very seriously; what I mean is, that the Treasury would benefit by it.

1622. (Mr. Pearsall.) Didn’t the National Bank and the Standard Bank find the 10s. note a profitable note?—Probably.

1623. (Mr. Middleton.) It would only be profitable if no reserve or a very low gold reserve were held against the notes. During the war, when the issue of the ten-shilling note commenced, the gold reserves were as low as 7 per cent. In the case of one of the banks I think it once touched 2½ per cent. for a brief space. Of course, you can make profits on the most expensive notes under such conditions. The Reserve Bank is obliged to keep a gold reserve of 40 per cent. against its notes, and on an average would probably hold 50 per cent., so that half the amount of the note is gone at once in gold backing. As regards interest, it would not be safe to assume a higher return than 4 per cent., so you thus earn £2 per annum on every £100, and the cost of your notes, paper, printing, custody, issue, withdrawal, etc., would probably be 1s. on every pound per annum (six notes at 2d. each); so that it would cost 5 per cent. for circulating the notes, against which you only earn £2 in interest.
1624. (Professor Kemmerer.) These notes, as I understand it, would be issued anyway by the Reserve Bank, and any expenses incidental to their issue would come out of the profits of the Reserve Bank, and only come out of the Government in so far as the Reserve Bank was making profits in ordinary times above 10 per cent. A short time ago I had a talk with Mr. Clegg with reference to this proposition, and he said the Reserve Bank had raised no objections to the 10s. note on the ground of profit, so far as he knew, had no objection to it. The dividend paid to the Bank's stockholders is limited.

1625. (Mr. Middleton.) Somebody has got to pay. If the Reserve Bank does not make a profit or incurs a loss, or the Government is prevented from making a profit or incurring a loss, there is a loss to the public whichever way you look at it of about 3 per cent. per annum on the amount of the 10s. notes in circulation. Why incur that expense if it can be avoided?—(Mr. Sturrock.) Mr. Clegg at Harrismith stated publicly that as far as the Reserve Bank was concerned they were prepared to issue the 10s. notes. They had everything ready to do so, and all that they required was the authority of the Treasury, who controlled the question.

1626. (Mr. Middleton.) The Reserve Bank may be quite willing to issue notes, but it means that the public are not getting the profits which the Reserve Bank would otherwise be able to hand over to the Treasury if it incurred no loss on such notes?—The Reserve Bank, as such, is not really supposed to make profit. While any profit it makes over a certain figure should be paid to the public, it was not established with the view of making such profit.

1627. (Professor Kemmerer.) Isn't it true that this high expense that you refer to in connexion with the wear and tear of 10s. notes is based largely on the recent experience with these low-grade notes, which every one admits were on poor paper and proved entirely unsatisfactory. Would that same expense be incurred with higher quality notes? I cannot help feeling that there is something wrong in the big losses that seem to be estimated here to be involved in the issuing of the 10s. note. I have been in a considerable number of other countries in which they have had large native and coloured populations, and I have never heard of such losses in maintaining the circulation of notes as large as 10s. as are complained of here. We had in the Philippines a two-peso note, equivalent to four shillings only, and, of course, in America we have the dollar note. On the dollar notes there are complaints of considerable losses, but nothing like the ones complained of here for the 10s. note. Still, the banks would be very glad to have the privilege of issuing them?—My own opinion is that the Treasury takes rather a narrow view of the convenience of the 10s. note. I say, if they lose 3 per cent. it is worth it. I do not see why they should lose it, but still it is worth it if they do. It is a note of extraordinary convenience.

1628. Mr. Clegg told me that the notes were very unsatisfactory because of the character of the material used; they were issued in response to a very hurried order and were shipped on short notice. The Reserve Bank couldn't obtain them from the people who make the Bank of England notes, but had to obtain them from another house. The bank made a claim against the people that prepared the notes for the return of a part of the purchase price because of the poor quality of the note, and these people made compensation for that, but explained the difficulty on the ground that the paper which they had to use was rather green, and that the order was prepared on such short notice that they couldn't possibly give a high quality note and meet the order in the time limits imposed. If you have any other suggestions other than what you think would be helpful to the Commission we would be very glad to have them now, or, if later you think of any points you would like to bring before us, we would be very glad to have you submit memoranda covering them?—I have nothing further to say at this stage.
In connexion with our problem, namely, the question of the advisability of South Africa's returning to the gold standard 1st July next, regardless of what action may be taken by Great Britain, we are desirous of knowing something about the methods employed here for handling the gold produced in this country as compared with the methods followed in other places in the British Empire. We understand that you are familiar with conditions here, being in charge of the refinery, and also with conditions in Australia and some other places. Will you give us a general statement first as to the method of marketing gold here?—The gold is produced by the mines and sent to the Rand Refinery. There it is refined. It is then packed and consigned either to England or to India. That is all we do here. The gold is all sold by Messrs. Rothschild, the agents for the mining industry.

They act as agents for the combined producers here?—The Transvaal producers, the Rhodesian, and the West African.

That covers all the gold produced in South Africa?

They act as agents on a commission basis?—Yes, they receive a commission.

The gold is then sold by them in the London market?—The various bullion brokers in London go to Messrs. Rothschild. The gold may be for India, for England, or elsewhere. We receive orders, instructions, etc., from London and are told to consign so many ounces of gold to India or to England.

Practically all of this gold then is sold by the producers through Messrs. Rothschild as agents?—That is correct.

They charge a commission for that service?—Yes, they charge a commission.

Does that commission vary from time to time, or is it fixed?—As far as I know, it is fixed. I forget the exact figure. It doesn't come within my sphere. But it is a small figure.

Speaking from memory, I think it is on the value of gold. It is so much per mille.

If gold is wanted in India or in the Far East, is it ordinarily sent first to London and then reshipped from there, or is it sent directly to India and the Far East under instructions from London?—Until quite recently it was all sent to London. We sent the whole of our production to London. During recent months we have come to a new agreement with Messrs. Rothschild, or with the Bank of England, and nowadays they receive the orders and tell us to consign the gold direct to India. We have not consigned any to the Far East.

At the present time, if gold is going to the Far East, it would go to London?—It may, or it may go to Bombay, for all I know, and then be reshipped.

This arrangement of shipping direct to Bombay under orders from London, instead of to London and then having it reshipped to Bombay, has been recent?—Quite recent.

How recent?—It might be 18 months since we first made small shipments. On a large scale it has been within the last six months.

And theretofore it was shipped to London and then transshipped?—Previously, yes.

Isn't this new method a much more economical one than the old one?—Undoubtedly.

Have you any idea how much more expensive it would be to ship gold from here to London and then trans-ship it to Bombay than it is to ship it directly, including freight, insurance, commissions, interest in time of transit, and so forth?—In the ordinary way shipping from here to London occupies almost three weeks. It leaves the refinery, Germiston, on Wednesday, and arrives at London the following Monday fortnight.
1646. How long does it take to ship it from London back to Bombay?—21 days, I think, by mail-boat.
1647. About three weeks again?—Yes.
1648. It would take six weeks if it were immediately trans-shipped?—Yes, if it were immediately trans-shipped.
1649. Ordinarily, it could not be immediately trans-shipped?—I should not think so, although there are plenty of steamers from London to the East, to either Bombay or Colombo.
1650. At any rate, it would take a minimum of six weeks?—Yes, a minimum of six weeks.
1651. How long does it take for direct shipment from Durban to Bombay?—Three weeks.
1652. There would then be an extra period of at least three weeks upon which there would be the expense of interest and the extra expense in connexion with shipping?—Under the old system the producer paid the freight from here to London. The purchaser in the East paid the shipping expenses from London to the East. It was not the industry that bore the two: the shipping charges and the loss of interest for the six weeks.
1653. But you would pay the expenses from here to London under the old plan?—Yes.
1654. And it takes practically as long to ship from here to Bombay as from here to London?—Just about the same: three weeks from Durban to Bombay.
1655. Of course, no matter who pays the shipping charges, if there are extra shipping charges covering three weeks' time and additional transportation, handling charges, and so on, it must fall on some one; and it is always possible that it might be shifted back to the producer here through a lessened demand for gold or in some other way?—Yes.
1656. You could not be sure that that was always shifted to the other fellow?—No. The procedure is that we receive orders from London and we ship gold via Durban. We pay the charges, insurance, and railage to Durban. The buyer pays insurance and freight from Durban to Bombay. We receive the money in London soon after the gold is shipped.
1657. Have you any idea how much the industry here gains by this changed plan, aside from the gain it may make in the line I mentioned a few minutes ago, through the possible shifting of the charges that one cannot readily trace?—In round figures I should say we save 3d. per ounce for railage and steamship freight, a penny per ounce insurance, and we may receive payment a little sooner, but not always.
1658. So you receive a benefit of how much?—About 4d. an ounce.
1659. Plus any advantage you may gain in receiving your money a little earlier?—It is not always earlier; in fact, it is known to be later. Against that we sell the gold f.o.b. Durban at a penny below the gross parity price; that is, the New York exchange rate calculated to the price of gold, minus a penny.
1660. How does that affect your method as compared with the method you had before?—Previously, we had to deliver our gold to London to get that price. Now we gain, say, 4d. and we give the buyer a penny on it.
1661. So you gain net 3d.?—I think so, in round figures.
1662. That is on all gold that you ship to India?—That is so.
1663. About how much gold will you ship to India during the present calendar year? Have you any idea?—I couldn't say. It would be only a guess. We have shipped about £10,000,000 for the year ended September, 1924.
1664. At 3d. an ounce how much is that gain that you realize by this new plan over what you would have received by the old plan?—About £30,000.
1665. That is a pretty substantial sum for the mining interests to realize. Was there any agitation that you know of before in favour of sending directly to Bombay in case of sales there, and thereby to realize this profit for the gold industry here?—It was.
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not possible to send it before we had our own refinery. It had to go to London to be refined.

1666. Since when have you had a refinery here?—Since December, 1921. Then there was the revolution, which stopped us for three months.

1667. Was there an agitation immediately after the refinery was established in favour of this?—There were discussions (I won't say agitations) as to the best use we could make of the refinery.

1668. Can you tell us how the gold produced in Australia is disposed of?—May I take the pre-war position first?

1669. Yes?—In Western Australia the gold producer sent his gold to the mint in Perth through a bank. The mint includes a refinery. Kalgoorlie is approximately 300 miles from Perth. The gold producer handed his gold to the bank in Kalgoorlie, who consigned it once a month to the Perth Mint. There it took approximately three weeks for the gold to be refined and coined. Varying from a week to three weeks after the receipt of the gold by the mint, the bank, as agent for the producer, was given a memorandum of out-turn. The producer was told what was the assay value and the sterling value of his gold. I believe a producer who was so disposed could go to the bank and get a cash advance on his memorandum of out-turn. Then the mint coined this gold into sovereigns and paid them into its bank. The producer would present that cheque to the bank and obtain Perth Mint sovereigns, which were largely exported.

1670. That was the situation before the war?—Yes.

1671. And the bank shipped this gold abroad to any place it sold it to?—Yes, the bank did the shipping of the gold.

1672. It bought it outright?—The cheque could be paid in sovereigns or bank-notes. There was no premium on gold.

1673. The bank was acting for itself?—Yes.

1674. Not acting as agent?—I don't think so. The banks used to ship the gold.

1675. Was this system applied long before the war?—In Western Australia 15 years. The mint opened in 1899—say 15 years before the war.

1676. Before that time they had been shipping their gold directly from Australia to London, as you had been doing?—From Western Australia quite a lot of it had been shipped to London. Sometimes the gold went to the Eastern States, where there were mints and refineries; but generally it went to London.

1677. I have here a quotation from the annual report of the Deputy Master and Comptroller of the Mint in 1900?—Which mint?

1678. In London. It refers to conditions in Australia in the year 1899 and theretofore, I believe to the year to which you refer. I will show you this statement, and perhaps you will put it into the evidence?—This is, I think, from the Deputy Master of the Perth Mint: "The gold produced by the large mines at Kalgoorlie, which are mainly the property of London companies, was nearly all exported direct to England in the form of ingots. It is not here clear in what way the shipment of bullion to England is more advantageous than its coinage at the Perth Mint. So far as the cost of treatment, freight, insurance, bank charges, etc., are concerned, it would appear to be cheaper to send gold to the mint and to transmit the sum required in London for dividends, etc., by bill of exchange. Moreover, there is a profit to be obtained by the export of sovereigns; profit which would be gained by the mining companies or the Australian banks when gold is converted into coin in this country. The fact, however, that so little Kalgoorlie gold is sent to the mint would appear to indicate the existence of sources of profit when bullion is exported to London, the nature of which is not at present known in this department."

1679. That shows the situation that existed in Australia prior to 1900?—It does not apply to Australia as a whole, but to Western Australia. The mint was opened in 1899. I was in the mint in 1900. There was this, what you might call, leakage of gold. But if you consult subsequent reports you will see each
year a bigger proportion of the gold produced in Western Australia was sent to the Perth Mint. If I remember rightly, some of the mining companies decided that they wanted payment for a proportion of their production in Western Australia for wages and local stores. The balance was required in England to pay dividends and overseas stores. A commencement was made by sending, perhaps, a third of the production to the Perth Mint and two-thirds overseas. The proportion to the Perth Mint gradually increased until about 1913, and the producers were sending 97 per cent. of the gold produced in Western Australia to the Perth Mint.

1680. Apparently their experience was that there was a great advantage to them in sending to the Perth Mint compared with sending directly to London—that is the conclusion I have drawn. Of course, when the war began, the Government of Australia said there was to be no export of gold, and they were compelled to send all the gold to the Perth Mint.

1681. Isn’t it rather strange, in view of this experience in Australia some twenty years ago, that no refinery was established here, or no method established here for handling gold in a similar way, before 1921?—I believe there were suggestions to have a mint and refinery here. I remember about 1908 applying for a position in a proposed mint at Pretoria.

1682. (Mr. Middleton.) In October, 1901, Lord Milner recommended having a branch of the Royal Mint at Pretoria?—Yes, there was talk about it. I remember about 1907 or 1908 I heard that a mint was to be established at Pretoria.

1683. (Professor Kemmerer.) But nothing came of it?—Nothing at all.

1684. The description you have just been giving concerning Australia shows the practice until comparatively recently, and this reference to the mint report from Perth shows the practice prior to 1900—it was 1899 that the Perth Mint was started. The Kalgoorlie producers only had the option of sending their gold to London or Melbourne. Melbourne received a lot of Western Australian gold.

1685. They had the option of sending it to the one place or the other?—Yes.

1686. In each case, was it under instructions from London or did they have the choice themselves?—I could not say. Each mining company decided that for itself.

1687. What is the practice in Australia now?—During the war there was an embargo on the export of gold from Australia. About 1919 the gold producers of Australia thought they could obtain a higher price if they were allowed to export their gold, so they obtained a permit from the Commonwealth Government to export gold produced each month, and sent a representative to the Far East about 1918. The Australian producers could not send their representative to India because there was an embargo on the importation and exportation of precious metals there. I believe a lot of this gold was sold in the Far East and smuggled into India. That was the position about 1918; and I think it has been much the same since, except that the embargo has been removed in India. The gold producers of Australia have a representative in the East, in Bombay generally.

1688. And one in the Far East also?—He has left the Far East and gone to India. He is in Bombay principally at present.

1689. Is any Australian gold now sold through London?—Not to my knowledge.

1690. We notice from the yearly reports and the monthly circulars of the Australian Gold Producers' Association, Limited, that they claim that by selling direct from Australia they are obtaining considerably better prices for their gold than are obtained by the Witwatersrand gold mining companies who sell through London. For instance, the chairman of the Australian Gold Producers' Association (Mr. Dyason), in his speech at the second annual meeting of that Association, stated that they were securing for Australian gold 2s. 9d. per fine ounce net more than
would have been received had they been selling through London. Have you seen this statement?—I read it a considerable time ago. The second annual report would be about 1918-1919—when we first obtained a premium on gold. They seemed to get away with it quicker than we did. While these figures may be some indication, we have not got the whole data for coming to that decision.

1691. What is the attitude of the mining companies here with regard to this point?—They try to get the highest price they can for their production.

1692. Have the Witwatersrand mining companies any representative in India or the Far East?—No.

1693. Has anything been done by the gold producers here to open up a direct market for gold in India and the Far East?—This year I was sent to India to look into the position as to the scope of the market and of increasing the direct consignment of gold. As a result of my report we are sending more direct.

1694. When was the decision to refine and mint gold in South Africa arrived at?—To establish a refinery?

1695. Yes?—1919.

1696. And when did the refinery commence operations?—I was brought from overseas in 1919, and we almost immediately proceeded with the erection of a refinery.

1697. When did you begin to refine?—1921.

1698. Can you give us any idea as to what the mining companies gain per fine ounce by having their gold refined here instead of in London?—I can tell you the charges that used to operate and the charges that operate now.

1699. We would like to have that?—At the beginning of 1919 the charge in London for refining gold had been increased, owing to the war, to approximately 4d. an ounce. Towards the end of 1919 the London refiners reduced their charges to 3d. an ounce. The Rand refinery commenced operations, and we have refined for less than 3d. an ounce; and the London refiners have reduced their price. The present charge is 2d. to 2½d. in London.

1700. That is about the charge in both places?—It is much the same in both places.

1701. The charge, in London, you believe, has been brought down through the competition of the refinery here?—That is my opinion. Of course, the 4d. an ounce was a war charge, due to the high cost of materials and labour. The ordinary charge, I believe, was 3d. an ounce.

1702. Is there any extra expense imposed upon the gold interests here through additional shipping charges when gold is refined over there as compared with here?—Not that I know of. We pay freight charges on the value.

1703. In either case?—In either case.

1704. We notice that in the annual report of the Deputy-Master of the Royal Mint, London, for 1899, there is a memorandum which shows that the opening of the Perth Mint benefited the gold producers of Western Australia to the extent of 1s. per fine ounce at least. Have you any idea as to the probable extent to which refining and minting here are likely to benefit the Witwatersrand gold mining companies, we'll say in the future, any more than what you have just given?—I think that would depend on the course of the bank exchange, on which I could not express an opinion.

1705. In view of this large gain that was realized by Australia, can you give any particular reason why it was that the refining and minting of gold here were not undertaken until 1921?—I cannot. I was not a resident of South Africa before 1919.

1706. It has been suggested to us that one method of handling gold here which might be employed, and which has been recommended by certain interests concerned with the purchase of gold, would be for the gold producers here to sell their gold directly to the markets of the world on a competitive bidding basis, giving delivery in South Africa, letting the gold producers here receive bids from any particular place in the world, and selling this gold, we'll say, f.o.b. Durban or Capetown. In that way it is claimed
you would have a more competitive market for your product, open
up wider possibilities for direct sales, and that in the long run
the industry would gain thereby. Have you any judgment to
express on that suggestion?—I cannot offer any opinion on that.
I don't know what the effect would be.
1707. Do you see off-hand any objection to it?—It would be
a much more difficult operation than the present.
1708. Some one must always provide the machinery for distrib­
uting the gold after it gets out of here. That machinery must be
paid for, and probably in one form or other it must be paid for
to some extent at least by the producers of the gold, must it not?—
Yes, I think so.
1709. (Mr. Middleton.) There are not many bullion brokers in
the world?—Not to my knowledge.
1710. (Professor Kemmerer.) The bullion brokers that are
operating in different parts of the world, the comparatively few,
know the markets of the world very well, presumably?—Yes.
1711. They probably are in a position to know shipping facilities
and dates of sailing and all that, and if they could purchase here
directly they would presumably be able to direct the shipments to
the various destinations by the cheapest and shortest routes, and
in that way might save considerable transportation expenses?—Yes.
1712. And in the long run, if that were true, it would presum­
ably be a benefit to the producers?—The point arises: there are
not many parts of the world that are served by direct shipping
from South Africa.
1713. (Mr. Middleton.) Not perhaps a frequent service, but we
do have lines to India?—There is a regular fortnightly service to
India and a weekly service to London.
1714. Isn't there a service to the United States and a service
to South America?—I don't know anything about the service to
the United States as far as regularity is concerned.
1715. (Professor Kemmerer.) The great bulk of your gold in
recent years at least has gone chiefly in its final destination, I
suppose, to the United States and to India?—That is so.
1716. And you have some direct shipping facilities to the United
States. I understand you have less now than you had before, but
one reason for that has been the lack of cargoes. If you had more
cargoes which could be shipped directly, why, presumably, there
would be increasing shipping facilities. I am told you now have
about one ship a month directly to the United States?—Then there
is the character of the ships to be taken into consideration. I
presume the ships for shipping gold are A 1 at Lloyds. It
is not
any ship that we can ship gold by.
1717. Of course, that would limit the ships that you could use,
but I should think the main thing to be assured of in a case of
this kind would be that you had A 1 ships to the few
principal markets where the gold which you produce finds its final
destination?—Yes.
1718. Presumably you could get them to the United States?—
I don't know anything about that. Would the gold, say, Cape­
town to New York, get there quicker than the present method: Cape­
town to London to America?—Yes.
1719. (Mr. Middleton.) I suppose if the mines send their gold
to the mint they will deposit the minted gold in the banks, and
the latter will export it. The mines will be relieved of all trouble
as in Australia?—Not if you could get more than 20s. for a
sovereign.
1721. (Professor Kemmerer.) In that case the mines would still send the gold to the mint and undertake the shipment themselves?—They might.

1722. In the case of, say, direct inquiries for gold coming from bullion brokers in India to-day to Johannesburg, Johannesburg would not deal with these inquiries; it would refer the Indian bullion broker to London, I presume?—To London.

1723. And similarly with any other offers to buy gold here?—I should think so.

1724. I have a table here—number 16 of the Union Census Office monthly bulletin for November, 1924—which shows the distribution of gold from all parts of Southern Africa sold in London from 1921 to 7th November, 1924. It represents figures supplied by the Transvaal Chamber of Mines. It shows that in 1921 New York received in round numbers 8 2/10th million fine ounces out of 8 7/10th millions total. In 1922, New York received 4 5/10th million fine ounces out of a total of 7 7/10th millions. In 1923, New York received 4 6/10th million fine ounces out of practically 10 million fine ounces distributed. And in 1924, down to 7th November, New York received 3 9/10th fine ounces out of 9 2/10th fine ounces distributed. Taking the four-year period as a whole, it appears that New York received about 60 per cent. of the total amount distributed, which is, roughly speaking, 21 million fine ounces out of a total distributed of something like 35 million fine ounces. That would seem to represent a very large item and one upon which there might be substantial gains if you could ship directly and avoid trans-shipping expenses, commissions, and so forth. Of the balance, the larger portion went to India, roughly speaking, of the 14 odd million fine ounces remaining?—Probably 75 per cent. of it went to India.

1725. Very nearly 12 million of the remaining 14 odd million fine ounces went to India. So if you provide for those two markets, you are providing for the great bulk of markets for your gold.

1726. I understood all of your gold was sold through Messrs. Rothschilds?—That is so.

1727. On commission. Now, when you sell your gold f.o.b. Capetown, you are doing it under instructions from Messrs. Rothschilds?—That is so.

1728. You have not the competition here in which you say to the world: "There is so much gold here; we will sell it to the highest bidder f.o.b. Durban or Capetown"?—I think virtually we have that; only we say, "apply to London."

1729. It all goes through Messrs. Rothschilds?—It all goes through Messrs. Rothschilds.

1730. (Mr. Middleton.) Would you think it wise to have larger gold pieces, say, £2 or £5, for the purpose of selling gold to India, to save the refinery making small bars?—We are not making small bars at the refinery. You do get the impression that the British sovereign is the predominant coin in the East. I have never put the question directly, but they certainly like the sovereign. India made some 15-rupee pieces the same weight and fineness as the sovereign, but they were not much in demand.

1731. Would there be any object in our having a shield sovereign?—I don't think so. Shield sovereigns are rare in India, and occasionally they command a little premium. I think it is largely a question of sentiment. If you issue a large number, the premium disappears.

1732. You don't think that a £5 piece or a £2 piece would help to dispose of the gold?—I have never been asked for anything like that.

1733. I think Mr. Evans has mentioned it at different times?—Yes, he has mentioned it.

1734. (Professor Kemmerer.)—I should think for hoarding purposes, when the people of India and the Far East became familiar with them, the larger coins might offer certain advantages?—They hoard a lot of fine gold. Furthermore, they refine a lot of sovereigns.
The bullion dealers refine sovereigns. They want fine gold. In the bullion bazaar in Bombay you will see a man with a pair of scales and a lot of sovereigns, and he will sell you what you like. They know by long usage that the sovereign contains a certain weight of fine gold. That is what they are concerned about. They take those sovereigns away and melt them immediately afterwards. They know they have purchased a certain amount of fine gold.

There are a few rajahs or Indian princes who keep large stocks of bullion in the form of bullion. They found that the silver that they had hoarded theretofore, and that it therefore had lost some of its value—because formerly a tola of silver could always be brought to the open market—could no longer be brought to the mints, and turned into rupees, as there were meanwhile closed, and they had to sell their bullion in the open market when the gold price of silver had gone down so much that they had to sell at a great loss. The result was that those who had silver in the form of bullion incurred heavy losses that they had not anticipated. I have heard it stated that since that time there has been an increasing tendency on the part of the people of India to keep their hoards in the form of coin; and I have understood that that applied both to gold and silver, though more to silver than to gold. There was a time, about 1919, when the silver in the rupee was worth more than the rupee in Bombay, and the Indians were melting rupees. Also some gold coins were made about that time in India.

1737. Indian gold coins?—Some were 15-rupee pieces of gold, the same weight and fineness as a sovereign.

1738. Were they at all popular?—There was a threatened currency crisis at the time. I was there to establish a Royal Mint, but it could not begin the coinage of sovereigns quickly enough. The Indian gold coins got into the bazaars. After a few months there were very few of them about. They had all been melted.

1739. Most of them were melted?—I think so. There are a few rajahs or Indian princes who keep large stocks of sovereigns, but generally speaking I think the sovereigns are melted. There is one point about those figures you mentioned, Professor, that America took 8 million ounces of gold in 1921 out of approximately 10 million.

1740. Yes?—That is an abnormal figure.

1741. This shows that?—I think that year India took very little.

1742. Yes?—The position is roughly this: During the war and up to 1919, India was prohibited from importing precious metal. When the embargo was removed they purchased very large quantities. The result was, they over-purchased, as I read the figures.

1743. The first figure I gave was the total for the four years?—Yes. If you take pre-war figures, I think the importations of gold into India averaged from 15 to 20 millions sterling annually.

1744. Those figures are readily available?—Yes. It is only since the war that America has been taking so much gold.

1745. That is a temporary situation?—The reason I ascribe to that is, it does not matter how much gold you have got, you send it to America and get 4.86 dollars per sovereign in gold.

1746. The American mints are open to free coinage?—I look at it differently. Owing to the American tariff and to the cost of production in England, we cannot send English goods in quantities. We may not be able to send wheat, etc., because America does not want it. But if we have gold we can send it.

1747. The United States is the only important country in the world at the present time that has free and unlimited coinage of gold?—Japan is another one.

1748. Yes, but her money has been depreciated recently, since the earthquake; and the result has been that it has not been profitable there to take gold to the mint?—Yes.
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1749. (Professor Kemmerer.) I understand you would prefer to have the questions which are put to you limited more or less to the relationship of labour to this currency problem?—Well, the technical phases of the problem have not come within the scope of my activities. I have been mainly concerned with the relation of employer and employee, wages to prices, and such like.

1750. What is your present position?—I am not in any position, except that I do some statistical work for the trade unions and represent them before commissions and such like from time to time.

1751. You are familiar then with the trade union situation and with labour conditions here?—Right throughout. I have been on a Government advisory board here with the late Government and vice-president of the Industrial Federation. I was general secretary of a trade union for five years.

1752. What has been the attitude of labour generally, so far as you know it, to paper money since gold disappeared from circulation and paper has been substituted?—I think gold gradually went out of circulation about 1916, and wages relative to prices fell. We started a struggle to recover our position, and as a matter of fact one of the claims put up was that we should refuse to accept paper money, but demand payment in gold since we were producing gold. It was argued on that, of course, that our position would be that we could sell the sovereign at a premium then, whereas we could only get 20s. for the paper pound.

1753. Was there considerable agitation for the continuance of gold payments?—There was a big agitation. As a matter of fact, we seriously considered a systematic demand for payment in gold.

1754. Is labour at the present time generally favourable to a restoration of the gold standard and the reintroduction of gold coin into active circulation?—Labour does not care whether it is gold or notes at the present day so long as it gets sufficient of either to maintain its standard of living at what it was in 1914.

1755. Does labour believe that the suspension of the gold standard has been a force in preventing them from getting as good wages as they were getting in 1913-1914, as measured in purchasing power?—Undoubtedly. The purchasing power of our pound to-day is 15s. 5d.

1756. As compared with 1914?—Over 1914, and it is considerably less over 1910.

1757. The purchasing power of the South African pound you would say is about three-quarters what it was in 1914?—Approximately.

1758. Have wages gone up proportionately?—No. Real wages are from 77 to 86 per cent. of 1914. Real wages: purchasing power.

1759. You are speaking now of white labour?—White labour only.

1760. There is a general belief among labourers that this experience with paper money has in one way or another resulted in reducing the real wages of labour?—That is so.

1761. Does labour believe that this change has been due chiefly to the currency, or does it attribute it to other causes?—The leaders of labour attribute it to currency. The rank and file attribute it to profiteers and the weaknesses of human nature generally. But the leaders generally attribute it entirely to the banking system and currency.

1762. Do the leaders of labour believe that the conditions would be improved, and these losses in real wages more or less eliminated, if the Union should return definitely to the gold basis?—Yes, I think they would put it that way: that a return to the gold standard, in which a sovereign is 20s. in purchasing power, would be to our advantage. But at the same time, I have to qualify that. We found that any rapid change of any description, whether inflation or deflation, puts us into trouble.
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1763. At the present time the value of the South African pound, as measured by exchange rates here on London, and the cross-rate between London and New York, is practically at par with gold, namely, with the American dollar. That is, at present exchange rates, the South African pound is practically worth as much as a sovereign, so that while there is no convertibility into gold at the present time, the South African pound has reached, temporarily at least, its pre-war gold value approximately. The pound sterling is something like 3 to 3½ per cent. less valuable than the South African pound in terms of gold. The question before this Commission is whether South Africa should definitely tie up with gold, namely, with the American pound, as measured by gold. 

The African pound, then that if the cost of living went up, under such circumstances, labour would demand an increase in wages proportionate to the increase in the cost of living?—That is what we demand.

1767. Would the employers readily grant that demand?—The employers couldn’t grant it if they wanted to.

1768. You think they couldn’t?—The mining industry couldn’t possibly grant it.

1769. They would be getting an increasing premium on their gold?—The premium has never compensated for the money rise in wages. We accepted food, fuel, light, and rent as the criterion, excluding sundries, from our calculations. We got increases of wages—I couldn’t give you the exact percentage, but at one time there was a 57 per cent. increase in wages. The premium at no time compensated, except temporarily for a month or so, but over the total life of the premium and the total life of the increased wages the premium did not meet the bill.

1770. You say you accepted as a basis the prices of food, fuel, light, and rent excluding sundries?—Yes.

1771. Why exclude sundries?—First, sundries were excluded because the Government told us they did not collect statistics in regard to them up to 1920. Then we had an arbitration board in 1920 between the municipal employees and the Johannesburg Municipality. The Director of Census was subpoenaed to give evidence before that board. In his evidence he divulged the fact...
that he had been gathering figures in regard to the increased price of sundries for a year previously, but that they were not made public; that, as a matter of fact, had they not been required for Treasury purposes, they would not have been made public then.

1772. Did sundries show a greater advance than other things? If sundries had been included would you have received a higher compensation?—139 sundries, 54 food, fuel, light, and rent.

1773. So that, if sundries had been included, you would have received a substantially larger compensation?—83 per cent. instead of 57. Sundries are taken as one-third of the cost of living.

1774. Do you believe that it is proper to exclude sundries in any adjustment of that kind?—We are just arguing before a board now that sundries should be included. Unfortunately, the Government statistician has taken up an ambiguous attitude. He says that, statistically, sundries are uncertain and unsatisfactory. Of course, sundries are not wholly excluded.

1775. Sundries include many of the things that make life worth while to most of us, do they not, over and above the bare necessities of life? Sundries include everything except the animal necessities of life, and some of those too.

1776. You say the evidence is here, and I think it is the evidence in many other places, that during the recent rise in general price levels sundries were for a long time among the articles that rose most and were among the articles that declined most slowly during a substantial part of the deflation period?—That is so.

1777. The result would be, if sundries were excluded in making the computations, while sundries are actually included in every man's living expenses, labour would suffer materially over considerable periods of time in its real income?—My own estimate is that we have suffered to the extent of 40 per cent. of the increase.

1778. Do you think that labour is generally dissatisfied with that ruling in regard to sundries?—We have had almost a civil war here largely based on that. You must bear in mind that this country is different to any other. We have only one ultimate method of settling quarrels here, and that is by rifles. We may argue a long time, but if you argue too long it will come to a fight.

1779. I have had some experiences in the United States, and made some observations in other countries, in regard to the adjustment of wages on the basis of changes in the cost of living; and I believe it is a general proposition, certainly in America, that sundries have been included in almost all of these adjustments?—May I summon you before this board?

1780. No, it would not be proper.—You are the man I have been looking for for several years.

1781. I take it then that, if this country should follow sterling, and if sterling should depreciate and the cost of living, as a result, should go up materially in this country, there would be, according to your statement, very vigorous demands on the part of labour for increasing wages proportionate to the increase in the cost of living, including sundries?—Yes, including sundries.

1782. And you say the employers, in your judgment, would not respond quickly and freely to that demand?—They would not respond quickly. We have always been from six months to two years behind the cost of living on the upward trend.

1783. Would that mean that it would be likely to result in serious labour difficulties in this country?—Absolutely certain to result in very serious difficulties.

1784. You think ultimately those demands, backed as labour would back them in one form and another, would mean an increase in wages sufficient to take up part at least of the rise in the cost of living?—My own experience is that it is not necessary for labour to receive the full increase in the cost of living to maintain its standard, although we know that the cost of living figures are conservative. My experience is that men can maintain their standard of living if they get 75 per cent. of the increase in the cost of living.
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1785. How do you explain that?—Efficiency in housekeeping.
1786. You mean increased efficiency?—Increased efficiency.
1787. Increased elimination of waste?—Increased elimination of waste.
1788. But if the housewife by vigorous effort economizes and improves her efficiency in expenditure, isn't it reasonable that she should receive the benefits from her economies?—I have just argued that yesterday as a matter of fact before the Conciliation Board. The employers claim that increased efficiency should go to them, in the industry. I promptly argued that increased efficiency in housekeeping should go to the worker.
1789. Well, why not? Certainly it is desirable in any social system to practice economies, and to improve efficiency. It is desirable in the household to eliminate waste, to direct expenditures in the most efficient way, to realize all the economies possible. If it is desirable to do so there must be some motive to lead people to do it, and the usual motive to lead people to do anything of that kind is the motive of gain. If the housewife by all her economies and all efforts to increase efficiency only secures a situation whereby the results of her economies are passed on to the employers, she isn't likely to be very enthusiastic over realizing these economies, is she?—The position here is that economy in the conduct of a household has been under economic pressure, that is, insufficient purchasing power to maintain normal standards that existed prior to the depreciation of currency.
1790. It has been stated here, and fairly high authority has been given for the statement, that the wages of white labourers in the mines, prior to the war, were higher here than the wages of similar labourers in any other country in the world; that therefore the pre-war level was an abnormally high level and should not be taken as a basis for the future?—That is not true. You must remember that we have a grave suspicion of the integrity of commissions in this country. We are almost governed by commissions. And it depends on the mental attitude of the Government in power. You can trace a distinct connexion between the views held by the Government in power and the reports of the commissions appointed by that Government.
1791. Do you mean that the Government tries to influence the commissions in their decisions, or do you mean that the Government in selecting the commissioners tries to select people that would favour a particular policy that the Government advocates?—That would appear to be the most feasible explanation, that the Government knows the normal bias of the various men they appoint to commissions and knows, with a reasonable degree of certainty, what the report of those commissions will be.
1792. Do you think that is the judgment of labour in regard to the Government commissions?—I will give you examples: When the first Transvaal Government came into power the heads of the Government were more or less anti-foreign-capitalist and strongly South African in their views. They appointed commissions. Those commissions reported against the mining industry and in favour of the views held by a large number of workers. At a later date, since Union, the views of the same people at the head of the Government appear to have changed; and all commissions since then have reported on lines adverse to the workers and in favour of the mines. This may not be necessarily cause and effect, but the average worker does not sit down to study it out.
1793. Have you had any commissions up to the present time under the present Government that have made reports on any of these questions?—No reports up to the present time. The commissions are sitting.
1794. You can pass no judgment as to the attitude of the present commissions?—I am prepared to hazard a guess.
1795. You say that labour would demand an increase in wages proportionate to the increase in the cost of living, if I understand you correctly?—That is so.
1796. And would probably obtain, after considerable difficulties and many efforts, a part of that demand. Do you believe that labour would be satisfied if it would get an increase in wages sufficient to compensate for 75 per cent. of any resulting increase in the cost of living?—I believe it would, provided that the calculation is based on the total cost of living.

1797. You take the position that labour is willing to give to the employers and to capital all of the advantages that it obtains through increased economies in living, elimination of waste, and all that?—It is not willing to do it. But on a reasonably good case put up by the employers on the difficulty of paying, it has always been prepared to accept that rather than strike.

1798. They would not do that because it was just, but because it was the expedient thing to do under the circumstances?—Expedient and as nearly equitable as they could reach, without industrial disturbances.

1799. Let us suppose that prices should go up, the cost of living should go up, and wages, with a considerable lag, should gradually go up so as to take up, say, 75 per cent. of the rise; and that, after that, inflation in England should stop, the decline in the gold value of the pound sterling should stop; and the pound should again begin to rise in value and move toward gold. I understand it is the declared policy at the present time of Great Britain to return to the gold standard as soon as practicable. That is the recommendation of the Cunliffe Committee, and that is the only official policy that has so far been adopted. If after a considerable period of inflation and rise in prices, England should turn around and again try to get back to gold by deflation; and if South Africa, by having tied up to sterling, should be under the necessity of following the pound sterling, then South Africa would be required to deflate in the direction of bringing the South African pound back to the value of the gold sovereign. That would involve falling prices and a falling cost of living. Would labour then accept willingly and without resistance a corresponding reduction in its wages?—Yes. Our trouble is here that a fall in prices in Great Britain is only reflected here after stocks bought at the higher prices are replaced.

1800. You don't think competition forces that decline more rapidly?—Only through the Insolvency Court and the auction rooms.

1801. New people can come in and buy at the new prices and force the other people to reduce their prices?—That is so, but it dislocates everything. We have had insolvencies go up by hundreds per cent. Another factor is, assuming that deflation started in Great Britain and sterling approaches nearer to parity, our premium here on gold disappears almost at once.

1802. Certainly there would be a substantial premium on gold until you get fairly near parity?—Our experience in the past is that the premium falls more rapidly than prices fall, and it falls before prices begin to fall. And the employers are then under the economic necessity of either mining above their mines' average of values or demanding a reduction of wages, which are the lines of least resistance in attack for them.

1803. The premium falls first. Then gradually you have a fall in wholesale prices. And lagging behind that is a fall in the cost of living. And then lagging behind that a decline in wages?—No, the employers attempt to reduce wages immediately on the fall of the premium.

1804. And don't wait for the decline in the cost of living?—And don't wait for the decline in prices. For instance, in 1921 the premium fell rapidly. They demanded a reduction of wages of 3s. a day when the cost of living basis—even the modified cost of living basis—that we were accepting (food, fuel, light, and rent) only entitled them to 1s. 6d. a day. In 1922, with the cost of living still 17 to 20 per cent. (food, fuel, light, and rent only again) above what it was in 1914, they left only half of the cost of living allowance on for six months and wiped it all off in June,
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1922, which brought us back to 1914 wages, plus adjustments as between one grade of workers and another, but minus any compensation for the increase in the cost of living, which I think was anything from 15 to 25 per cent. on the four items that I have mentioned.

1805. In that case, you think labour would vigorously resist any decline in wages?—Yes.

1806. Until the cost of living came down?—Yes.

1807. Do you think that, as soon as the cost of living came down, labour would be willing to accept a proportionate decline in wages without resistance?—They would never accept a decline to the standard that existed previously, no matter what the standard is. Assume we had a 20 per cent. better standard, that is in terms of living, than we had in 1924: when we got used to that in the time of inflation and the employers want to reduce us back to that standard, labour will always demand that it is entitled to the progressively improving standard, and that in the time of falling prices it should be allowed to retain a certain measure of gain in the standard of living.

1808. I take it you believe in case you had a period of inflation, followed by a period of deflation, labour would vigorously demand increasing wages as prices and the cost of living were going up, and that they would get part of it with difficulty and by means of many labour troubles of one sort and another; that when prices turned around and came down, the tendency of the employers would be to try to reduce wages more quickly than the cost of living and that labour would resist that vigorously and that labour would even resist reducing prices as quickly as the cost of living came down and to the extent that it came down. Is that correct?—Labour would demand a time lag in reductions of wages at least equal to the time lag in the increases of wages; and they would not be prepared to come down to the standard that existed before if they could possibly maintain it. The whole thing is a psychological problem as well as an economic one. The friction generated by rising prices and the struggle to maintain real wages creates a frame of mind that is not conducive to conciliatory methods when the reverse process has to take place. The result then is that even when reason is against the workers, they still take up the attitude that they have so much trouble gaining these things that they are going to cause a considerable amount of trouble before they let them go.

1809. If that is true, and it is decided to follow sterling, and in case sterling should decline materially during the next year or so, as it might, but as we don’t expect it will, and then should be brought back slowly to gold parity, that would result in very serious discontent and serious labour difficulties?—We have every reason to believe that any attempt to tie up to sterling, if there was a chance of sterling depreciating more or less rapidly and then appreciating again, would cause serious trouble industrially here.

1810. There is always a chance that sterling will do that, is there not?—There is always that chance. I am satisfied that if we do follow sterling in a lot of ups and downs, as we have had to do in the past, we will be faced with serious industrial troubles.

1811. Do you believe then that labour as a class favours the resumption of the gold standard 1st July next, and its maintenance in the future?—I think that if labour was articulate on the question, that would be what they would ask for.

1812. Do you think that would be to the interests of labour?—Yes.

1813. In this discussion so far we have been talking entirely of white labour. White labour is to some extent organized here and is more or less articulate (perhaps less than more) I gather from what you say?—It is less at the present time. 

1814. But the great bulk of the labouring men in this country are coloured labourers. Do they have any rights in this matter?—Undoubtedly. As a matter of fact, except in the
determination of the respective spheres of labour of the two sections—that is, as to the jobs they shall do—the trade unions in fighting for any given policy automatically benefit or inflict upon the other races the same benefits or inflictions that they bring on themselves.

1815. Do you believe that these same principles that you are contending for in connexion with white labour should apply also to coloured labour?—In a lesser degree they will apply, whether we like it or not.

1816. You believe they should apply?—Undoubtedly.

1817. Do you think that coloured labour during the last few years of depreciating currency and later of appreciating currency has suffered very much through the failure of its real income to be maintained, namely, through the failure of its wages to respond to changes in the cost of living?—We are largely outsiders generally when you deal with the psychology of the native races and their wants and aspirations. We take necessarily a detached view. We cannot fathom the native mind to any great extent. But taking the actions of the natives in our last experiences over the war period, exactly the same thing operates with the natives as does with the white man. In 1918 we had a serious demand here for a shilling a day increase of wages on behalf of the natives in the mining industry, and a very big strike. So that they must have been feeling the economic pressure of rising prices in a similar manner to ourselves, if not in the same degree.

1818. You have been much more articulate, you have been much better organized, than they have. It would seem natural from that, that you would have suffered less from these changes than they have?—We have suffered less in some ways, and in others we have suffered more. The native, the bulk of those employed, is getting “found.”

1819. But “found” only for the labourer and not for his family?—“Found” only for the worker and not for his family; that is, as to indentured labourers, but “found” for his family, too, in regard to natives in private employment.

1820. In the mines, and in the great majority of positions, the “found” only goes to the labourer himself?—There is another factor: the natural worker in the native family is the woman; and they live on tribal lands which belong to the natives. The equivalent of the “found” on the mines is the appreciation of prices of the products of the farms, so that on that the native would not suffer.

1821. He suffers only to the extent then that he has to buy goods for money?—Yes.

1822. But in general you would say that the same principle applies to the native labourer as to the white man?—Generally speaking, I think so. I think the differences balance each other to a large extent, and that anything that applies to the whites economically applies in a greater or lesser degree to the natives.

1823. Do you know of any native labourer in this country, or any native black man, who is sufficiently intelligent and sufficiently in touch with his people to express and render articulate the views of black labour?—Oh, there are dozens. I don’t know their names.

1824. Would it be desirable for this Commission to hear such a person?—I think it would.

1825. Can you suggest such a person?—There are two apostles of black unionism travelling the country now. One is Kadalie, and another. There is a thing called the Joint Council of Europeans and Natives here. Provided you can divorce the natives from the Joint Council and get their opinions without collaboration with the European section of it, by close questioning and sympathetic treatment, I think you could get some valuable impressions from them. It would be necessarily only indications that you yourself would have to put in their proper perspective, but it might assist you. But our experience of this Joint Council of Europeans and Natives before the Mining Industry Board is that the Europeans come up and give evidence on behalf of Europeans and natives.
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but in most cases they had to state that the native section dissented from this view. I couldn't see the value of the "joint" in this thing myself. To me it was a huge joke that there should be such a body and that it should have to come up and, after giving very definite evidence, it next had to state that of course the joint part of it, the "black joint," dissented from this view.

1826. The "black joint" did not have an opportunity to express why it dissented?—It had an opportunity. But, obviously, you must take into consideration this fact: If you bring an educated black man to talk to you here, and you treat him sympathetically, you can get to the bottom of him. But if you take any black man, and most whites, and put them before a Judge of the Supreme Court and one or two titled people, and they have trade-unionists belabouring them from the one side and the employers questioning them from another side, the value of their evidence is nil. The value of half the Europeans' evidence is nil. As a matter of fact, it took me about six years before I could go before a Commission and think as clearly as I could at home.

1827. Isn't it generally a safe proposition that labour which is reasonably contented, which is reasonably sure that it is getting a square deal, is much more efficient than discontented labour or labour that feels it is not getting a square deal?—I go further than that: I would state that the higher price you pay for labour in the sense of the real wages you pay, the higher your efficiency. Unfortunately, the employers in this country are obsessed with the idea that low-waged labour is cheap.

1828. Do you believe this principle applies to black labour as well as to white?—It applies to all labour.

1829. Labour that is inarticulate, or labour that is not in a position to unload its grievances, to express its opinions, is much more likely to be discontented, is it not, than labour that has an opportunity to express its grievances and its wishes?—Labour of the kind you indicate is cheap, discontented, and inefficient.

1830. If that is true, an opportunity in one form or another to the black labourers to express their grievances, to get a real hearing, in itself, regardless of the value of their recommendations, would make for their contentment and efficiency?—Black labour is the same as white, in my experience in dealing for five years with thousands of grievances. I found that I could settle 50 per cent. of them by sitting quietly and listening to the man unburdening himself. He went away with his grievance settled by the mere process of telling it to somebody. That is, of course, unless it were some real thing, if it were what I might call a subjective grievance.

1831. Do you think black labour has had any appreciable opportunities in this country to unburden its grievances and express its opinions on these economic problems that affect them and with which various commissions have been concerned from time to time?—I don't think so. I don't think the black worker has had any treatment that was likely to enable him to give expression to the things that he really thinks. I think a formal commission dealing with the black man, where he has to give evidence in public and be subjected to a heckling cross-examination, brings about a position in which he very often expresses almost anything excepting the thing he would really tell a sympathetic person in private.

1832. You think he is inclined to express the views that the questioner apparently wants him to express?—Yes, you can lead him into almost any expression of opinion.

1833. But if you hear him privately and sympathetically you think he can be induced to express his real opinions?—Yes.

1834. We would like to have your judgment on any other phase of this question which you think would be helpful to us?—I haven't really given the matter any study. As a matter of fact I have always been too busy trying to make wages follow prices more closely to go into these other things. I should certainly say that I would favour a separate South African gold standard. I would
favour it being brought about, if possible, as gradually as possible, and at a time when sterling was approximately at par.

1835. It is nearly there now, and South Africa is practically at parity now. The question is, should South Africa take means to stay there, or not? According to present legislation, this country must automatically return to the gold standard, regardless of what happens in Great Britain, 1st July next, unless it passes new legislation. If no action whatever is taken this country returns to the gold basis 1st July next?—There is no reason why it should not return to the gold basis at once, notwithstanding that law, by the simple process of sending the gold to the mint.

1836. You would favour not even waiting until 1st July next, but stabilizing at present?—They have the opportunity now. If we have reached parity, send the gold to the mint and anticipate it.

1837. In any case, you would not favour postponing the return to the gold basis later than 1st July, 1925?—I couldn't say. If the difference between sterling and the South African pound becomes great, so that there would be any catastrophic effect from the change, then obviously the gradual process would be best for us.

1838. The difference would not be great unless sterling between now and 30th June depreciates very much. In that case you would have sterling down?—While you have Egypt and a country like my own (Ireland) in the world, it is a bit of a guess where sterling will be in a few months hence.

1839. This Commission must recommend promptly what it thinks should be done, in order that the country may have time to prepare for whatever action is to be taken 1st July. You cannot make a change of that kind ordinarily without preparing for it. The question before us now is, shall we recommend that, regardless of what may happen to sterling, this country should now definitely decide to return to a gold basis 1st July next? South Africa is now practically on a parity with gold. Shall it stay there, whether sterling comes back to gold or not?—I think if we can stay there between now and 30th June, the best way would be to take no action but go back to the gold standard then. But if there was a big variation between the English and South African pound, I think some gradual means would be better.

1840. If you are going to make preparations you must announce now, and if you announce now what you are going to do next July the public will make their plans accordingly; and it would be rather serious to fail to comply with your commitment, would it not?—Yes. I am not well enough acquainted with the subject to express an opinion on that, except that we have found that gradual changes do not cause the trouble in industry that rapid changes do.

1841. To return to the gold standard now, or to go to the gold standard next July, would involve practically no change in the present gold value of your pound. There is no big change necessary, only a very slight one to place it definitely upon the gold basis. So that at the present time there is no problem of a sudden change. The only question of a sudden change that might come up, would be if South Africa should in the next few months tie up with sterling in such a way as to follow sterling, and if sterling in that time the gold depreciate very rapidly. If you stay right where you are, you are practically on the gold basis?—Except that we don't circulate the gold. If we could do that, I think most people would agree that we should do that.

1842. You think in general it would be desirable in the interests of labour for South Africa to clinch gold parity now since she is practically there and to maintain it in the future?—Yes. You understand these are largely my own opinions, where it is in the realm of opinion.

1843. To what extent do you think labour in this country, so far as it has an opinion on this subject, would be likely to hold an opinion similar to yours?—Labour, in so far as it expresses that opinion, is in favour of a sovereign that is always a sovereign in terms of commodities; that is, not a sovereign that is to-day worth 15s. worth of commodities and to-morrow worth 22s., or another day worth 20s. of commodities.
1844. When you speak of 15s., or any other number, you are referring to its value over commodities in 1914?—Yes.
1845. The point has been urged in the past that labour sometimes feels that it has been rooked in some way or other, or taken advantage of in some way or other, that it does not exactly understand, because it is receiving paper and not gold; and that labour would be more satisfied, would be more assured of the fairness of its treatment, if it was being paid in gold sovereigns which it could see and whose value it would more or less understand than while it is being paid in a paper pound which it does not understand and whose value it is disposed to believe may be more or less manipulated. Do you think there is anything in that?—There is. My experience is that labour generally has a
instinctive grasp of Gresham's law. I have found it mainly at the time when gold was disappearing from circulation. I have heard dozens of men curse these notes and wish they were back to the sovereign that they thoroughly understood.

1846. And why did they curse the notes?—Because there was an instinctive feeling that it was bad money being substituted.
1847. That something was being put over on them?—That something was being put over on them, and they had pretty good grounds for thinking so when they compared their money and real wages with one period and another. We were getting 50 per cent. of wages for an 86 per cent. increase in the cost of living, and that is excluding sundries. One can understand that labour had quite a good reason for being dissatisfied with the pound. What obviously was the thing that they blamed and, as a matter of fact, which they were encouraged to blame by the people who were putting it across them.

1848. To what extent is white labour organized in this country?—On the Reef, that is, on the Witwatersrand, probably to-day 60 to 70 per cent. Throughout the whole of the country not 40 per cent.
1849. Are the various organizations federated together into a South African organization?—No. In the Cape Province a number of unions are federated. At present in the Transvaal there is merely a tentative federation. When one considers that they are organized into so many unions, except for the problems immediately affecting themselves, they are not organized at all. For dealing with the bigger national problems they are not organized.

1850. When you speak of the number of labourers that are organized, you include all labourers that are organized, even those who are organized only in local unions?—Yes.

1851. Are there many unions that are purely local, where there is only one chapter of the union? Are there separate district unions?—Take engineering: we have the Amalgamated Engineering Union which is merely a section of the British Amalgamated Engineering Union, just the same as it is in Canada and Australia. We have the Woodworkers' Union, which is now being cut off from Great Britain, and in the near future will be purely a South African Union. Outside these two, any other international unions are negligible in membership. We have the National Union of Railway Servants, which is national, covering the whole of the Union of South Africa. We had a process of amalgamation of the whole of the mine workers of South Africa under one union, but the 1922 strike smashed it into several sections, which, outside the Witwatersrand, are practically without organization at the present time.

1852. Is unionism in South Africa stronger since the 1922 strike, or weaker?—Oh, weaker. It is growing stronger.
1853. The 1922 strike for the time being weakened unionism here?—Practically smashed it.
1854. Do you think it is growing stronger very rapidly?—The pressure of rising prices recently has had a tendency to make the workers organize more rapidly. On the Witwatersrand there is always the psychological factor, that we suffered a glorious defeat in 1922; and action and reaction are equal in opposite directions.
in industrial matters, just as in physics. There is right down at the bottom a desire to get their own back, which is hastening organization.

1855. Do you think the rise in the cost of living, to the extent you have been having it here recently, is causing an increasing discontent among labourers?—Undoubtedly. The total increase in the cost of living, according to the latest figures, is 20 per cent. over 1914. That gives you 35 to 37 per cent. over 1910.

1856. That includes sundries?—That includes sundries. Now wages are not by any means that much above the 1914 level, and in some of the industries they are below.

1857. The statement was made before this Commission a short time ago that, roughly speaking, the cost of living was about 16 per cent. higher than in 1914, leaving out sundries, and that wages were about 16 per cent. higher, so that labour on the whole was in as good a position as it was in 1914. That refers to the mining industry?—That is incorrect. There has been a reduction in the number of men employed in most of the occupations in the mining industry with the daily-paid white men. The increase that you are told about, the 16 per cent., is a fictitious increase. It is an increase on paper, because I worked out not long ago a given number of contractors who were receiving a higher rate of wages than in a previous year. Then I deducted the total amount they were now receiving from the total amount they were receiving the previous year I was comparing it with. I then divided out, that is, the number of men employed less to-day than before into the saving of wages to the employers, and I got a real average for that section that had been eliminated of Is. to Is. 6d. lower than the average wage that was being paid for the same job the previous year. So it was obvious that what had happened was that they had lopped off the lower paid men, and that would automatically inflate the average without any increase of wages to anybody.

1858. Is there any evidence that labour has been driven any harder than before; that it is more efficient, that it is working longer hours, or in any other way is giving more in services for a day's labour than it did in 1914?—Oh, undoubtedly. There is the fact of all increase in the production per white unit and per black unit.

1859. There has been, I understand, a great increase of efficiency in the mines, a reduction relatively in costs lately. And I am wondering to what extent that has come about through the placing of heavier burdens on labour, and to what extent it is due to improved machinery, improved methods, and so on, for which labour cannot claim credit?—That is not correct. These statements are made: globular statements that include everything. They are never analysed. The mining industry, which makes these statements, has never given us an analysis of just what is due to improved mechanical efficiency and just what is due to other improvements. We know that men are working considerably more places, supervising a greater area of ground, a greater number of native labourers doing a greater number of jobs. For instance, where a man used to supervise and work only his machines on his contract, to-day he is supervising his machines, he timbers his place, he looks after his own water and airpipes, and things like that. There has been an all-round speeding up and increase in the intensity of labour. In addition to that, there has been a continuous fear of dismissal hanging over the white men, with an enormous army of unemployed outside waiting for their jobs, which has led to their voluntarily working hours in excess of the legal hours laid down.

1860. Do you think they are working longer hours now on the average than they did in 1914?—No; that is not a fair comparison, because the 8-hour day was only agreed to during the war. You couldn't compare that.

1861. (Mr. Middleton.) Eight hours bank to bank?—Eight and a half bank to bank. They are working certainly longer hours than they did in 1921.
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1862. (Professor Kemmerer.) Don’t they get extra pay for overtime?—A lot of these men are piece-workers.

1863. What is the adjustment in the mines for overtime: do you get time and a half for overtime?—Time and a half for overtime, but a lot of this is unpaid overtime.

1864. Unpaid overtime?—Unpaid overtime, in this way: assume I am working underground; I am limited to 48 hours in any consecutive week. I work 12 hours to-day, for which, obviously, I should get 14 hours’ pay at time and a half on the extra 4 hours. The next day I work 12 hours again, which would give me a further two hours’ pay. The manager comes along and says: “George, you have worked an extra shift this week, and the law doesn’t allow us to work you more than 48 hours. You will lay off to-morrow.” He doesn’t lay me off for a day and a half, but for a day. And he doesn’t pay for the half a shift that I should be getting. He should really let the man off for 8 hours and pay him for 4. But it isn’t done.

1865. At the end of the week, on that basis, if you have worked your 48 hours only, you only receive full pay and you don’t receive any overtime?—That is so.

1866. That is done to a considerable extent?—We have considerable complaints about it from various mines.

1867. Is that the policy of the mines, or is it just an accident that it happens?—We call it a policy; they don’t. There is a difference of opinion on that.

1868. It doesn’t make much difference to you, though, so far as your pay is concerned, as long as you don’t get the overtime?—Nobody wants the overtime really. The conditions here are so bad. They are only worse in America in metal mining, as far as industrial diseases and unhealthy conditions are concerned. And the men have arrived at a stage when they prefer to work the shortest number of hours possible to obtain a decent living.

1869. A great deal of progress has been made in America recently?—Undoubtedly. But it all depends where you are advancing from. They advanced from a pretty rotten position here. I remember a boy in Cumberland seeing the men coming home from South Africa after two or three years and dying like rotten sheep. I came to this country in 1904, and I worked in a mill. The man next to me came out to this country after me. He went underground to work. I attended his funeral in two or three years. If you take the trade unions, if you come over to the Miners’ Union Office with me and look at the photos of the executives of some years ago, you can’t find any of them alive to-day. They are all dead.

1870. They would be comparatively young men, if they were alive?—Forty to fifty. If you get the phthisis figures you will find that the average age of a man dying from phthisis is forty to forty-one, after ten years’ work underground.

1871. What provisions do they have here in the line of retiring allowances, pensions, and so on?—They have a most efficient system, probably as generous as could be devised. It costs 6s. 3d. per white shift worked for phthisis compensation alone.

1872. That is all paid by the employer?—By the employer entirely. They have a Phthisis Board; they have a Phthisis Medical Bureau. A man goes up every six months. He is thoroughly examined and an X-ray photo taken of his lungs. When he reaches a stage where there are some distinct signs of impaired capacity of the lungs—I forget the exact technical term—he is warned that he is in danger. At a later stage he goes up, and he reaches what is called the ante-primary stage of silicosis or phthisis or tuberculosis, or whatever it is. If he goes out of the mine within three months of that warning he gets the equivalent of approximately a year’s wages if he is a lower-paid man; less than a year’s wages if he is a higher-paid man. Sometimes they get men who are advanced to what is known as the secondary stage. These men are awarded a pension based on the scale of earnings.

1873. Paid in a lump sum?—No; a pension and so much per dependent until they are sixteen years of age.
Suppose a man maintains his health and grows old in the service, what provisions, if any, are there to retire him when he reaches the age beyond which he cannot work?—The only machinery for retiring a man who grows old in the service of a South African mining company is that some day the boss comes along and finds that he is slower than he used to be, and fires him.

Without any compensation?—No compensation at all.

Is there any agitation on the part of labour for retiring allowances?—There has been a tentative one, not based on the length of service of men who have been a long time on the mines, but on the assumption that a man who goes to work underground should get so much for every year he has been underground and retired at a given time, or when he likes after it. It has never gone beyond being just a proposal. But as to the idea of anything in the nature of provision for old age or industrial infirmity, there is nothing, excepting for phthisis.

In making comparisons of wages now and pre-war wages and the cost of living now and prior to the war, it is common to use the year 1913 or the forepart of the year 1914 as a basis. In the statements that have been made before this Commission from time to time with reference to wages in the mines, it has been stated, as I mentioned a short time ago, that wages here in 1914 were very high, and that there, therefore, it isn't exactly fair to assume that they represent an equitable basis for future adjustments. In your judgment, is that statement true?—No.

In advocating it the opinions of the Economic Commission have been cited from time to time?—The report of the Economic Commission stated that wages were high on the Witwatersrand, but taking everything into consideration, that they were not too high. But, apart from that, there was a further item that should be elucidated; that is, that the Economic Commission was appointed in, I think, September, 1913. It reported early in 1914, probably about January. It is obvious that this comparison, always based on 1914, is not based on the year or years that the Commission framed its report on. It appears to me impossible that a Commission could report in January, 1914, after taking its evidence in the latter part of 1913, and adopt 1914 as the basis of its report. I have reason to believe that 1913, from the wages point of view, was slightly better than 1914. To that extent this practice of basing things on 1914 is vitiated.

Do you think that the difference was very material?—I haven't gone into it. As a matter of fact, I am in process of investigating it now for other purposes. Wages must have been lower in 1914, since there was a successful strike in 1913, and there was an unsuccessful strike in 1914. An unsuccessful strike is always followed by worse conditions as to wages and the elimination of white men, and a successful strike is always followed by an increase in the number of white men and more or less an appreciation in wages.

Are there any other points you would like to make that you think would be helpful to this Commission in its deliberations? If in the future any points come to your mind that you think would be helpful, we would be very glad to have you send us a memorandum on the subject. We are after the facts so far as they relate to our particular problem, and we want them as fully as we can obtain them?—I have nothing further to say at the moment.

FRIDAY, 19TH DECEMBER, 1924.


1881. (Dr. Vissering.) You gentlemen are here representing the Pretoria Chamber of Commerce?—Yes.

We are very pleased to see you here, and we would like your opinion about the main question that has been put before the Com-
mission, namely, whether it is desirable for South Africa to go back to the gold standard independently of England on 1st July, 1925. What is your opinion on this main question?—(Mr. Pocock.) Well, we have felt that on the questions that you have put up that we rather prefer to give you a written reply to those questions. I feel that we should wish to discuss amongst ourselves the full replies which we should like to give you, as, whatever opinion we might express now might be our personal views and not necessarily represent the views of the Chamber. I think it would be better to give you a written answer to those particular points. We have not the written reply here. But we have certain general replies, but I would not like to say that they are the opinion of the Chamber as a whole. There was, I think, one point that I think I can state here. Should there be a danger of the gold standard being replaced by any other standard, then South Africa could return to the gold standard independently of Great Britain in the interests of the gold industry, otherwise she should follow Great Britain, although at the present value of the exchange of sterling and provided this parity did not depreciate, there will be very little disturbance in commerce if a return to the gold standard was made.

1882. On condition that England should also come back to the gold standard?—I think that the general view is that if there was any reason that she departed from the gold standard, then we would be justified in taking very drastic steps in the interests of the country, which is the largest gold-producing country in the world.

1883. Can you explain the reason why there is such a heavy premium on the South African pound over the English pound? This premium is now $3 per cent. South Africa is now practically on the gold level, and the English pound is only about $3 per cent. below gold parity?—Well, we are pretty near it, but if gold returned to parity, shall we not get nearer still? Won't this exchange rate come lower still?

1884. The exchange is fixed by the commercial banks here, and is fixed for rather long periods—for two months and more. Do you think that it is the right way of fixing the rate of exchange between one country and another?—(Mr. Orr.) My idea is this. The exchange here is governed first of all by the price of gold, and, secondly, by the balances in London.

1885. The balances of commercial banks or the balances also of private people?—The whole balance. The position is this, that if the banks are accumulating large balances in London, the premium here will rise. If the banks, on the other hand, have to put out large balances in London, then the premium will disappear, and in some cases transfer itself into a discount and not a premium. This happened in 1920. I think that governs the rate of exchange here more than the actual value of gold. There is no open money market.

1886. And what is the reason that there is no open money market?—I don't know that I can give any reason for that, but to a large extent it may be due to the country having practically only two banks here as far as finance is concerned, and I think custom has a lot to do with it, too.

1887. Are there no bills available in the market?—No. There have been occasional transactions in past years when individuals have been able to transfer funds from one to another, but they are very rare.

1888. What is the reason? There are large exporters and also large importers, so, what is the reason that, with such considerable trade development during the last twenty years, you have no bills in the open market. For instance, that you have no bills on London?—Well, I think possibly the reason for that is, first of all, the very small community, and, secondly, that it is questionable whether it will be worth any one's time and trouble to enter into a business of this description. It may be now, but in past years it was not
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[Messrs. Percy Vivian Pocock, Hugh John Orr, Andrew
Thompson Wilson Downie, and Hatton Duff.]

1889. Your chief exports are, in the first instance, gold, then
diamonds, then wool. Now, in the case of gold and diamonds,
where is the ultimate price fixed of those commodities? Gold equals
about 50 per cent. of your exports, diamonds may reach 7 or 8 per
cent. So gold and diamonds together figure about 58 to 60 per cent. of your exports. Where is the price
of gold and diamonds ultimately fixed?—In regard to diamonds,
that, of course, is practically fixed by the Diamond Buying Syndi­
cate; the London and Amsterdam syndicate. I don’t think that
it reflects the true market price or the London market price at
times. So far as I know, it is taken at an average price, and the
value of the exports is the value upon which duty is declared.
With regard to the fixing of the gold price, so far as I know, that
is more or less governed in London.

1890. But London is not the ultimate buyer of gold?—No, that
is true. It is bought mostly in India or America.

1891. Therefore the ultimate prices are fixed in America and
India?—(Mr. Pocock.) Well, if that is so, the price of wool and
cotton is governed by the prices ruling in London or England,
although last year large quantities were resold to Europe—I think
to France. But the market price paid out here for wool was always
gauged by the prices ruling in London, and also for cotton, no
matter what subsequently happened.

1892. But the main part of your export is gold and diamonds,
and the question is, how the prices of gold and diamonds are
ultimately fixed?—(Mr. Orr.) Diamonds are a purely artificial price,
and gold, I consider, to a very large extent is governed by the law
of supply and demand; that is to say, if America has large balances
to receive of the world’s trade, she must be paid in gold. On the
other hand, if there is a large demand from India—as there nearly
always is—then India will enter into the market as a competitor
and force up the price. Coupled with this, there may be
demands from other countries for the gold in question. And the
prohibition by various countries of the free export of gold restricts
the movements of gold and allows large stocks to accumulate.

1893. At all events, it is certainly that the gold is not kept in
London; it goes partly to India, but the greater part of it goes
to America, so that we may assume that the final price of gold
is fixed in America.—Not altogether. You must take into account
the demands from other countries.

1894. Which country is taking gold now?—India is always
in the market, and even some of the European countries still
require gold in order to bolster up their currency.

1895. That may be the case to a certain extent with Germany,
but I suppose to a rather small extent. For the intention of
Germany is to adopt the gold exchange system, so that they do not
want so much hard gold for the present; they will be entirely
satisfied by having large balances abroad, in America for instance.
But do you think that the price level of the English pound will
have much influence on the price of gold?—(Mr. Pocock.) I think
so. It is very difficult to answer these questions like this. But
that particular point seems to me a very intricate one. Perhaps
Mr. Orr will be prepared to answer it.

1896. It is not only a question whether South Africa should
return to the gold standard either independently or with England,
but whether the South African pound can be maintained at gold
parity if it is decided to go back to the gold standard on 1st
July next. How can South Africa maintain that position?—I think
that the fixing of a particular date was purely a measure taken at
the time to indicate that it is South Africa’s intention not to
depart from the gold standard. The date thus might have been
30th September, or it might be the 31st of March: the date was
really not important. It is simply to impress in the main that we
intend to go back to the gold standard. Surely in considering
that matter they should remember the considerations which weighed
with them when they fixed this date of some two years ahead.
The Currency and Banking Act provides that should gold return
to power, then gold certificates would automatically be declared convertible.

1897. But how can you maintain it?—(Mr. Downie.) Do you mean, will there be any difficulty in maintaining the supply of gold?

1898. No, I mean this: When you declare that you are going back to the gold standard, then you have to maintain the gold standard of course, and you have to bridge over the difficulties you will have with other countries in case of a bad crop and in case of other things that might create a drain of gold from the country. You have to maintain the exchange of South Africa with other gold centres. How can you do that? You can do that, of course, with your exports, but your exports may not be sufficient to maintain your rate. What measures can you take then? In this connexion, what will be the rôle of the central bank in maintaining the gold parity? Will you give me your opinion on that?—(Mr. Pocock.) That is, if we return independently of Great Britain?

1899. What measures can the Reserve Bank take? What rôle can it play?—(Mr. Downie.) Our export trade is very much greater than our imports, leaving out of consideration the invisible imports; that is to say, our debts, our interest, our bonds. I think there is no great risk of South Africa returning to the gold standard for fear of her not being able to maintain her position. If Great Britain did not return to the gold standard, the credit of South Africa will be sufficient to maintain these invisible imports, which are mainly with England.

1900. The chief items of course are the loans which have been raised in England, in consequence of which a great deal of the invisible imports must consist of interest and amortization of those loans. But what is the rôle that you expect that the central bank can play? Should it interfere with the market?—(Mr. Pocock.) That means a State bank.

1901. We have to consider that question later. But do you think that any disadvantage will result from the Reserve Bank entering into the open market and to a certain extent competing with the other banks?—(Mr. Downie.) Yes, I think there will be a disadvantage.

1902. In how far?—(Mr. Downie.) Well, in so far that it will be interfering with the special business of the commercial banks.

1903. So it will be only to the disadvantage of the commercial banks. But there is also the interest of the whole community apart from the banks. And if you are considering the question from that standpoint, do you think that it will be to the disadvantage of the whole community that the Reserve Bank should also come into the open market to buy or sell T.T. or bills on London or other big centres in Europe and America?—(Mr. Orr.) It seems to me that the functions of the Reserve Bank taken by themselves can quite easily be carried out by the Treasury—I mean the Government. I think so far as actual banking is concerned the Bank is to a certain extent taking on the functions of the Government. That we are handicapped here to a certain extent by having so few banking institutions is quite correct. The history in practically all countries is the history of every small banking institution in each and every town; gradually these disappeared and merged into larger institutions, but the growth of every country has certainly been assisted by individual banks in each town. It is difficult to say now whether finance being in so few hands is better than having it in the many. Economic conditions are not the same, and it may be that we are better served if a more conservative policy were pursued by having a limited number of banks instead of a large number. On the other hand, a number of banks not limited as the commercial banks here, would undoubtedly foster the trade, industries, and development of this country. I would not like to say whether the Reserve Bank should perform both these functions. What is really required here is an industrial bank.
1904. You know that the same question arose in America shortly before the outbreak of war, when the Federal Reserve system was established there. During its first years it had little to do with foreign business, but since 1917, after America had come into the war, the Federal Reserve banks have taken a very active part in the foreign business of the country and one of their duties is to regulate the inflow and outflow of gold, and to maintain as far as necessary the rates of exchange. The Reichsbank in Germany existed before the Dawes’ Commission, but since that scheme has come into operation one of the first duties of the Reichsbank—re-established with the co-operation of nearly the whole world—is to assist in maintaining the foreign value of the mark at gold parity. The South African Reserve Bank has been established in a country where the private commercial banks did the entire financing of foreign exchange. But it is now a question if that is desirable in the long run, and whether the people do not want a change in banking policy in the same way as it has been changing in America and in Germany. To a certain extent it may be disagreeable to the commercial banks for a new competitor to come into the market in the shape of the Reserve Bank, but on the other hand it must be remembered that the Reserve Bank will not come into the market as a common competitor. For what is a common competitor? That is when a bank comes into the market to try and get as much business from others as it can for the benefit of its shareholders. That, of course, can never be the position that the Reserve Bank will take here. It will not come into the open market with the aim of competing with other banks, but it has got other duties, chief of which is to maintain the gold position. For that purpose, it must have the power on occasion to interfere in the open market. To a certain extent it may appear to be competitive, but, fundamentally, it will not be done in the interests of its stockholders or with the object of making money, but to protect the interests of the whole community. The Reserve Bank may in this way become of very great use to the commercial banks. The commercial banks will fall back upon the Reserve Bank in times of stress. That is the position that exists in England, in Germany, in France, in Holland, in Sweden, and in other countries. Therefore, I should like to put this question to you: Don’t you think that it will be in the interest of the Union of South Africa that the Reserve Bank should become more active in its policy and that it should come into the open market with the purpose of serving the public interest which may ultimately react to the interest of the commercial banks. Can you give me an answer?—(Mr. Pocock.) I would like to ask one question: Was not one of the functions of the Federal Reserve Bank to control and supply credit in America; was not that one of its main functions?

1905. Yes, of course, that is the intention.—Now, if you apply to the Reserve Bank here the same methods and principles that they adopted in America, would not that be advantageous to us? 1906. For the control of the entire money market and the discount market of course it would.—I think I am correct in saying that one of our great troubles these last three or four years has been the severe restrictions on credit by the commercial banks. But if any means could be devised of maintaining the equilibrium in the credit, then it would be very advantageous for protecting the commercial community.

1907. I would just like to put this question before you. Of course it will be in the interest of the general public that the Reserve Bank should give full support for the supply of credit in the country. For that purpose it is necessary that commercial banks and other banks, as for instance the Land Bank, should be able to fall back on the central institution, but this would involve the whole credit system of the country being developed on such lines that these commercial banks and the Land Bank could get the commercial paper with which they can have recourse to the Reserve Bank. This involves, first, rediscountable bills, and in
the second place, collateral that can be used for advances desired from the Reserve Bank. Now, I should like to put this question before you: Do you think that there is sufficient rediscountable commercial paper available for the Reserve Bank, or, if this is not the case, why is there not sufficient commercial paper, and how can you create such a development of the internal market as will secure such genuine paper? It will be clear to you that this question also involves the consideration of the great question of the open credit system. What is your opinion?—(Mr. Orr.) Is not the development of the open credit system largely due to the methods in vogue in the early days in Scotland? So far as I recollect it is. Well, you see, sir, the open credit system has grown up in this country. A storekeeper obtains facilities from his wholesalers. The storekeeper gives facilities to the farmers, who more often than not take a credit of twelve months. Now, in very few instances do these farmers give bills to the storekeeper, with the result that up to recently the storekeeper could not give bills to the wholesaler, and as the retailer could not give bills to the wholesaler, the latter had to utilise an open overdraft with the bank. Much of this within the last three or four years has now changed, and the majority of wholesalers insist on getting notes from all country stores, with the result that the internal bill system of the country is developing in the desired way. (Mr. Pocock.) Because the banks have got so many of the small storekeepers in their books, they cannot make any change unless the wholesale house agrees to it. They cannot go to any other seller; they are absolutely tied up.

1908. Do I understand you to say that you agree that it will be in the interests of the country to develop the credit system in the line of creating commercial bills?—(Mr. Orr.) Most decidedly. (Mr. Dowie.) What I want to say is that putting a stop to the system of what I might call credit manufacturing that was possible before the establishment of the Reserve Bank will itself bring on the bill system to a large extent. At one time credit was too easily manufactured by the system of overdrafts by the banks simply by the issue of notes against which they were not compelled to maintain a sufficient amount of reserve. The position as it is now will bring about the bill system to a very much greater extent. Only patience is wanted.

1909. So you agree that it is absolutely necessary for people to be educated in that direction?—(Mr. Dowie.) Yes. We all agree. (Mr. Pocock.) One point that we have to remember from the retailers' point of view, especially in a town like Pretoria, where a great portion of your business is conducted on a credit basis, their funds come in at an average of 60 or 90 days or more, and it creates a certain amount of hardship with them.

1910. Because they have given too much credit to their customers?—We are trying to get away from this.

1911. Don't you think that this open credit system has had a bad influence on prices? Have not long credits caused a rise of prices?—(Mr. Orr.) I will tell you why. I don't think that it has any influence on prices, the reason being that there is far too much competition in this country, and trading to a very large extent is overdone. In Johannesburg alone I believe there is one store to every nineteen inhabitants. Well, if you can judge a country from that it will give you an idea of the fierce competition there is in South Africa, and the index figures on the increase in the cost of living show South Africa to be one of the cheapest places to live in, and to my mind competition is the reason for this. (Mr. Pocock.) I cannot go quite so far as Mr. Orr in that. I think that extended credit might affect prices in some measure. I speak from a personal point of view of my own business. A cash basis must cut out certain overhead charges. I agree that owing to the severe competition the increase in price is small, but I consider that if we trade in this town for example, every store on a purely cash basis, there would be a saving of a
certain percentage. (Mr. Downie.) I agree, and would like to say that there is no doubt that the easy credit system has had a bad effect on prices. One of the reasons for so much competition is because credit is easy. Through this excessive competition prices have been kept fairly low, but all the same, excessive competition has led to very severe losses from bankruptcies, and the loss has got to be made up somehow, so that no one gets any benefit in the long run from the easy credit advances that were in existence.

1912. Quite right. An increase in the value of the South African pound results in a profit to the importer here. Does the importer pass on this profit; does it go right through from wholesaler to retailer and from retailer to consumer?—(Mr. Pocock.) In one of the biggest stores in this country, when the premium was 8 per cent., they actually allowed that in costing their goods, so that undoubtedly it was passed on at once to the consumer, and the consumer got the benefit at once. Other stores did not do that. They costing their goods in the ordinary way without the premium, and unless competition forced them to sell that article at the reduced price the consumer did not immediately get the benefit of the premium. The premium only lasted for two months, I think it was exceptional for the consumer to get the benefit. And that is a point that came into your question. Four years ago the premium was 8 per cent., to-day it is 3½ per cent. to 4 per cent.—you have got a fall of practically 4 per cent. on our stock values. Now, if anything is done to bring about a further fall of 4 per cent., that means that commercial houses would be faced with the full 8 per cent. premium, and stocks would accordingly be replaced at 8 per cent. less.

1913. But you have to take into consideration that the purchasing power of the South African pound was greater than the purchasing power of the English pound?—(Mr. Orr.) I don't agree with the whole of Mr. Pocock's remarks. My experience has been, in auditing various firms' accounts, that no premium is ever taken into consideration in costing the goods. The only way the customer gets the benefit is from the severe competition existing. A fall in the premium naturally means an increase of the replacement value to the merchant, and if that premium disappears altogether then the price of goods should rise in this country, but owing to the fact that the premium is not taken into consideration I don't think it will make any difference whether the premium disappears or not, anyway to the price of goods on the average. It must, however, be borne in mind that there are very few firms in South Africa who can earn that premium to a very large extent.

1914. I should like to put you this question. What is your opinion as to the duty of the Reserve Bank as a central bank. Is it your opinion that in its capacity of a central bank it should become more active in the bill market. What should be its policy in maintaining the foreign exchange rates? Can you express your opinion on this point?—(Mr. Pocock.) I think that we are in favour of it taking up the same position as the Federal Reserve Bank of New York and the Bank of England and the Reichsbank and to follow on the lines indicated by you in certain respects.

1915. With the object of furthering the public interest, not with a view to making money for its stockholders?—(Mr. Downie.) I think that it should be made clear that the reason for that opinion is that the Reserve Bank enjoys considerable advantages in so far that it is the only bank with a note issue, and they have other advantages under the Act. In addition to that the commercial banks have a private capital put up by their shareholders, and their business should not be unduly interfered with by privileged competition.

1916. You must not forget that against these advantages which you have indicated it is the duty of the central bank to maintain a very large reserve in gold which earns no interest. It has to keep at least 40 per cent. in gold. Then it has the expense of its note service, and relatively the small notes are very expensive.
Mr. Aubrey Charlton Wilmot (examined).

1917. (Dr. Vissering.) You are the General Manager of the Land and Agricultural Bank of South Africa?—Yes.

1918. You know that the main question before our Commission is whether the Union should go back to the gold standard independently of Great Britain on 1st July, 1925, and if you wish to give your opinion on that main question, I shall be glad to hear it—(Mr. Wilmot.) I should prefer to confine my remarks to the functions of the Land Bank.

1919. What is the real character of the Land Bank; is it a mixed institution in so far that the shares are partly held by the Government and partly by private shareholders?—The Land Bank is what we might call a semi-Government institution. There are no shares at all. All the money we got to start with was voted by Parliament. Every year we go to Parliament for a certain amount and Parliament votes us as much as it feels disposed to. That forms our capital, so that when we started our capital was voted by Parliament and Parliament said that money must be invested in terms of a particular Act. Now that Act provides for advances to farmers on first mortgage for the development of agriculture, the purchase of stock, purchase of land, purchase of seed, improvements, or for erecting buildings—anything regarded as development—fencing, etc.; the money to be invested, as I say, only on first mortgage. We may call that the nucleus of the Land Bank's business. We also helped the farmers who co-operate. Co-operative societies came to us, but we could originally only help the farmers who co-operated with unlimited liability, that is, a joint and several liability—'onbeperkte verantwoordelikheid.' These co-operative societies were formed mainly for the purpose of enabling the farmers to realize their products. The money that the Land Bank advances to these co-operative societies is advanced in two forms—one is a fixed loan that we give them for the purpose of erecting storehouses to store their grain in until such time as they can realize it.

1920. Is that for a long period?—Usually for ten years, repayable in half-yearly instalments. Then we have another form of loan to co-operative societies, that is called the cash credit loan. Assuming that a society's members have delivered to it 100,000 bags of maize, the society naturally cannot sell all the maize at once, but in the meantime the farmer wants something to pay the costs that he has had in producing that maize. Therefore the society comes to the Bank and borrows sufficient money to advance to its members. We stipulate the advance shall not exceed 60 per cent. of what we consider the market value. The seven shillings per bag that we advance is paid out to the member, and that is considered to be sufficient to cover his cost of production and to give him something to live on until the society can realize on his maize and pay the difference that it has realized. At the end of the year, when the maize has all been realized, the society pays us back our loan and that is what we call the 'short-date' loan. It is only for nine months, or, perhaps, for a year, and the society pays interest on it only while it is owing.

1921. Do you lend this money to individuals?—No, only to co-operative societies.
1922. What kind of receipt do these societies give?—The law provides that if a society wants a loan it must hold a meeting and must resolve to raise a loan in a certain form. When we receive the resolutions of that meeting signed by the Chairman and Secretary giving us details of all who were present and of the resolutions passed, accompanied by an application signed by the same persons, the members of the society are bound by law on that application jointly and severally—the society and all its members.

1923. You do not receive promissory notes or warrants?—No, the application when it is granted by us binds them.

1924. I must conclude therefore that it is not usual to finance such advances indirectly through another institution, for instance by rediscount of farmers' paper through the Reserve Bank?—That is so.

1925. So there can, under this arrangement, be no opportunity for you to rediscount with the Reserve Bank?—There is nothing in our law to prevent our taking a bill from a society. We can take any additional security that the Board may prescribe.

1926. But in practice you don't do it?—In practice we don't do it. In practice the money that we require for financing these short-date loans is obtained by means of the money that we can take on deposit under our law, or by means of an overdraft from one of the commercial banks.

1927. I see from your statutes and also from your balance-sheet that you have the power to issue bills and to issue bonds?—To issue bills, yes, but the bonds refer to money advanced on mortgage.

1928. What do you understand by a bill?—This is a document that you have the power to issue bills and to issue bonds. To issue bills, yes, but the bonds refer to money advanced on mortgage.

1929. Could it be an issue of a negotiable character?—Yes. It is not usual for us to take a promissory note from a co-operative society.

1930. Who signs the bills?—They are signed by the managing director and by a member of the board.

1931. So such a bill is a promissory note issued by the Land Bank and not by a society?—Yes. It is not usual for us to take a promissory note from a co-operative society.

1932. Now I have been told that the credit that is given to agriculture is in the opinion of some people here insufficient; that they cannot be sure that the commercial banks will always be ready to give credits of this nature, and that to meet this want provision should be made either that the Reserve Bank be in a position to give advances in one form or another for agricultural purposes, or that a State bank should be created in order to fulfil this requirement. Now, can you give me your opinion on this question?—We have felt, that is, the Land Bank Board has felt for a long time, that the individual farmer is handicapped in regard to "short-date" credit. At the present moment if he goes to an ordinary commercial bank he can get money for three or four months only on a bill or promissory note, which, at maturity, has either to be renewed or partially renewed, or it may be that he is required to pay it off altogether. It is usual to renew it, although when times are bad the farmers complain that they cannot get a renewal.

1933. So they are at the mercy of the commercial banks. That is a great drawback for them?—Assuming that the commercial bank refuses to give them further facilities they must go to some private money-lender, or they must go to the country storekeeper and buy on credit anything that they urgently require—necessities of life. Because the country storekeeper sells them the goods on credit he has the power, when their crop is reaped, to press them for payment. They may not have realized their crop as the price may be too low, but he forces them to sell their crop to him at a comparatively low price in order to cover their indebtedness, so that he makes a profit on the goods that he sells them, and he makes a profit on the crop that he buys from them.
1934. So they are entirely at the mercy of the private money-lender?—If they go to the ordinary money-lender they have to pay a rate of interest that may be any figure.

1935. And what can the Land Bank do to prevent this evil practice?—As our law stands now we can do nothing unless the man can give us a first mortgage on his land.

1936. Will it be sufficient to give their produce as collateral?—The law does not admit of that in the case of the individual.

1937. So the individual is practically without any assistance from you?—So far as the "short date" loan is concerned. His only remedy lies in co-operation and that only helps him when he has got the produce to hand to his society. It does not help him during that period when his crop is growing. For instance, he starts to plough to-day, but he wants a plough, he wants plough-shares, he wants a harrow, he wants seed, he wants money to pay his natives for their work, and he has to buy bags to put his crop into, for instance maize; he has to pay living expenses for himself and his family, and he only reaps his crop in nine months' time, so that he wants money to carry him over that intervening period of nine months.

1938. Don't you think that he requires some capital of his own for, of course, he cannot carry on his whole business on borrowed money?—It is unsound, but I am afraid that that condition exists amongst the farmer population. Many of our farmers have practically got no capital other than their land and that land may already be mortgaged perhaps to pay the purchase price on it or perhaps for the purpose of erecting buildings. I would like to hand this memorandum to you. This was drawn up last year when the South African Party Government had the intention of introducing an Agricultural Credit Bill. This memorandum was drawn up to explain that Bill and it will show you the basic principle of what was proposed to be introduced in that Bill.

1939. But it is then clear that neither your institution nor the Reserve Bank can assist such a farmer in getting the capital that he wants?—Yes, that is so.

1940. Therefore, if it be assumed that such a special credit will be required to meet the needs of individual farmers it will be necessary to take specific measures to provide him with such an extraordinary credit. Do you expect that the creation of a State bank will solve this problem?—The view of the central board is that the difficulty would be best met by the creation of an agricultural credit system described in that memorandum.

1941. So that would involve the creation of a new institution?—The intention was that it would be a branch of the Land Bank—a development of the Land Bank, or an offshoot of it—and it would be on a co-operative basis.

1942. And how can you get the capital that will be required to provide for such a development of the Land Bank?—The capital would be obtained in the same way that we can now obtain capital, that is, either by a Parliamentary vote, or by taking money on bills, or deposit. But you will see that under that scheme that is proposed there, the idea is that there should be a certain amount of public subscription.

1943. So then you will introduce the principle of private shareholding?—Not actually in the Land Bank, but in the particular organization that is going to finance the members of the society.

1944. But that organization will not be managed by you?—Well, it would only really be financed by us. We would have a supervising control of it. The actual societies that would borrow the money would control themselves, and they would be jointly and severally liable to the main organization in the particular area whose capital would consist of shares. Now, those shares the public would be given the opportunity of subscribing for.

1945. And will the shareholder be liable for a greater amount than the amount of his subscription?—No.

1946. So these shares will be of a limited liability and the Land Bank would take up any shares that have not been subscribed
by the public. And how will the Land Bank get the capital to do that?—Our capital is available in two forms, either by a vote from Parliament or by taking money on deposit.

1947. I did not get an answer from you as to whether it would be necessary in your opinion to create a new State bank?—No, the creation of a new State bank would not be necessary. It would merely be necessary for legislation to be introduced extending the powers of the Land Bank in this direction.

1948. Have you the power to issue bonds, and, if so, under what conditions and provisions as to payment of interest, and why don't you issue such bonds, for I cannot find their issue indicated on the balance-sheet?—I do not think we really need power of that sort. Our law provides that we can raise money by discounting the bills from the co-operative societies, which we don't do in practice, because we can do it by overdraft.

1949. From whom?—From any commercial bank, and by issuing Land Bank bills from our own institution and by receiving moneys on deposit. Now, section 4 of Act No. 36 of 1921 says that any funds raised under the authority of this Act shall be chargeable upon and payable out of the revenues and assets of the bank so that if we issue a Land Bank bill for £5,000 and find automatically, by virtue of this section, becomes a charge on all our assets, on our bonds, on our buildings, on anything that we may have.

1950. Do you mean that indirectly that will have the effect of a mortgage?—All our borrowings in that way, are a first charge on any bonds that we may possess, a first lien on any assets that we may possess.

1951. Having a preference over the capital fund that has been provided by the Government?—Yes, because that is part of our assets in the form of bonds.

1952. What is the position of the Government towards your institution? Has the Government a claim over the money that it advances, or is it more in the position of a shareholder?—It has a claim.

1953. This claim from the Government would rank after the claim of a man who had deposited money with the bank or taken a Land Bank bill?—Yes.

1954. Is that a matter of custom or is it the law?—It is, I consider, the law. I would like to explain that the money that we raise in this way can only be used for certain purposes. It can be used only for short-date loans. I would refer to section 5 of Act No. 36 of 1921. This money can be used only for the purpose of making advances to co-operative bodies in the form of cash credit accounts, that is "short date" advances.

1955. Is there no possibility that these bonds will be issued more in the shape of the mortgage bonds issued in other countries and that they will become an investment for the public in order to enable you to get more funds from the public in this way?—If we want money for long date advances, ordinary mortgages advances, we can only get that money from Parliament at present.

1956. What is meant by long date advances? For 30 years for instance?—Yes. And, of course, we can use our own revenues, our profits, and also repayments. When one man repays his bond we can always advance the money to another man. Our money is always turning over, and we are always making fresh advances on mortgage. But the demands on the Land Bank for ordinary mortgage money by the farmers increase every year and we find it difficult to meet the demands. I might say that we have not been able to carry out to the full the policy which the law contemplated in financing agriculture in South Africa. For instance, we may tell Parliament that we shall require a million pounds to advance to the farmers next year in the form of mortgage. That is what I might call long term advances to individuals. But Parliament may not be prepared to give us more than half a million. It may cut down our supplies. Naturally, then we have to cut down certain assistance here and there to farmers who otherwise could be assisted by us.
1957. The farmer would in that case have no other course but to endeavour to raise the money he needs elsewhere?—Well, that man will be bound to go and borrow his money on mortgage perhaps from a board of executors, or a building society, or from some insurance company or private investor.

1958. Is there much money available from those sources?—There is quite a fair amount of money available from those sources, but the terms on which they lend are not really satisfactory to the farmer. For instance, they may lend the money to him for three years. He cannot possibly pay it back in three years. It is possible that they will renew the bond at the end of the three years, but they may not do so. Another unsatisfactory feature of the private investor is that sometimes he does not like anything to be paid off his bond, he prefers it to remain there and to draw the interest if he considers it a satisfactory investment. The board feels that any man who raises money must be compelled gradually to pay it off so that he eventually redeems his bond. He must gradually amortize his debt. We find in many cases that men have had bonds on their farms unchanged for a period of 15, 20, and 25 years, because they were fully trusted by the investor, and they were not encouraged to reduce.

1959. But in such cases the borrower has no certainty. He must expect at any moment to be called upon to redeem his debt?—Well, it is either one way or the other. Either they are called upon to pay when the bond falls due or they are not encouraged to redeem, so that they are either in the position that they have got to find the money at once or else the creditor says: "I don't want you to pay anything off." The money can be called up subject to three months' notice.

1960. For instance, if the lender should die, then his heirs can call in the whole amount after a period of three months?—Yes.

1961. So such a system of credit does not protect the borrower from trouble that may arise as a result of such a possible calling up of loans?—No. Now, the Land Bank bond is given for a certain period of years according to the purpose for which the money is required. If the money is going to be put into something that is quickly reproductive, say, for instance, a flock of sheep, that man can repay so much quicker than he can if he is going to put that money into improvements on his farm. Money put into a flock of sheep will repay itself in a few years. But if he builds large cow-sheds and kraals and puts up fences, he will naturally get the benefit of those improvements gradually. Hence we make a man repay his loan in half-yearly instalments, which consist of both capital and interest, and the result is that he pays an amount which at present works out at just a little under 6 per cent. The rate of interest is 6 per cent. on an ordinary mortgage bond, but the instalment, which includes reduction of the bond of course, works out approximately at 8 per cent. per annum for a period of twenty-five years.

1962. For what reason?—For the reason that, in addition to interest, he pays off a certain amount of capital.

1963. Will you be so kind as to tell me what rate of interest you charge borrowers and how the amortization is arranged?—We have various forms of loans to an individual. There is the loan on first mortgage, that is made at present at the rate of 6 per cent., per annum interest, and it is repayable after a period of years not exceeding thirty, in half-yearly instalments which consist of capital and interest.

1964. So that the sum that has to be repaid every half-year is more than 6 per cent., because it includes amortization?—That is so. Then we also have the power to make to individuals a special form of advance for fencing or digging tanks. And if they require a supply of water we give them what we call a "water supply" advance. It is not really for irrigation. If a man's farm is waterless, we can give him money for sinking a borehole on that farm and putting up a windmill. These loans we give at present at the rate of 5 per cent. per annum. They are not secured by mortgage, they are secured by what is known as a
“charge.” It is a note made against the “groundbrief”—the title-deed—of the man, and that “note” prevents any transfer of this property until the amount owing to us has been paid.

1962. So that is not a real mortgage?—It is better even than a mortgage.

1963. But you have no right of execution?—When I say it is better than a mortgage, I mean that it takes preference over any mortgage that may be on the land. It is in the nature of a legal hypothec.

1964. If the mortgagee comes to execute his claim, what is the position of the Land Bank? Can it prevent the sale and execution of such mortgaged ground?—It cannot prevent the sale, but it can prevent this man passing transfer of his property, which is practically the same thing. It is like a hypothec on the land.

1965. But then the result will be that the mortgagee cannot obtain payment of his claim when it is due?—Yes, but he is consulted before we make this advance. The law requires us to advise him, and then he can immediately take steps to protect himself. He can call up his bond before the Land Bank charge is created. When the man applies to us for a fencing loan, we turn up the records and find that he has given a bond on his land to some person. We then get the address of that man and we notify him that the debtor has applied to us for a fencing advance, so that he can take steps if he wishes to do so. But there is usually no objection, for the reason that we don’t pay out any portion of the advance until such time as we have evidence that that fencing, or that dipping tank, or that windmill has actually been completed, and that it is of the value of the amount advanced. If we advance £150, we satisfy ourselves that fencing worth £150 has actually been erected, or that the property is actually improved to that extent, and that will be to the benefit of the mortgagee. For that reason there is usually no objection on the part of the mortgagee.

1966. Section 2 of Act No. 36 of 1921 provides that as soon as the Reserve Fund and the capital of the bank total such amount as in the Board’s opinion is adequate to enable the bank fully to carry out its objects, we shall pay to the Minister such amount as the Board may consider it can pay out of the profits of the Bank out of the Reserve Fund of the Bank. And this amount the Minister shall apply towards the reduction of our capital debt, and that interest will then cease on that amount that we pay off. That is the provision.

1967. You are not amortizing, because you always require fresh funds, so in practice you don’t amortize?—We have not yet got to that stage.

1968. So at present you are not in a position to amortize?—That is so.

1969. And now, as regards the interest that you pay to the Government. What rate of interest do you pay to the Government on your capital?—The rate of interest that we pay to the Government varies according to the cost that the Government incurred in raising that capital. The capital of the Land Bank consists of the capital of the Provincial Land Banks that existed before Union, which were merged in the Union Land Bank, also such other amounts as the Union Government has placed at our disposal—making a total of just about eight million pounds.

1970. But you are repaying the Government the interest that the Government has to pay for its own borrowings?—But that can change nearly every month. Say, for instance, a new loan has been raised and the Government is paying 5 per cent. interest.

1971. Then the Government will charge you 5 per cent.?—If they advance us any portion of the money that they raised this year, then they charge us the same rate of interest that they have to pay for it. If any portion of that money is advanced to us, we pay the Government what it cost them. Perhaps I can explain it better like this. When the Land Banks were formed in 1907, the Government was able to raise money at a very low rate of interest, somewhere about 3½ per cent., so that on that amount we would be
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paying a lower rate than we are paying on money that was raised last year. Our interest calculation is an intricate one. On £500,000 we may be paying 4½ per cent.; on another £500,000 we may be paying 5 per cent.; and so on.

1975. But now the question of amortization. On which loans are you amortizing? Have you the choice of taking the highest interest and amortizing that first?—We have. We can direct that any portion of our capital debt can be amortized with the money that we can pay. It is to our advantage.

1976. It is entirely left to your discretion which portion you will amortize?—Yes, that is so.

1977. And how can amortization be effected for the whole amount that has been advanced in a year, or even for a part of such amount?—For any amount that we can pay off—£1,000 or £300,000.

1978. Do you think that the Reserve Bank ought to take a more active part in the financing of the country?—We feel that the Reserve Bank could help by placing money at our disposal, that the assistance should be given through us, and that it should be possible for the Reserve Bank to assist us with money for the purpose of reinvestment.

1979. What collateral can you produce against such advances?—The Reserve Bank might help by rediscounting bills taken from co-operative societies.

1980. So you can create those bills?—We can create those bills. And why do you not do that?—We had a little difficulty with the Reserve Bank in regard to the matter. The Reserve Bank felt that we could obtain reasonable facilities by going to the ordinary commercial banks for funds in the form of an overdraft.

1981. So the Reserve Bank compels you to apply to the commercial banks?—At the same time the Reserve Bank advised us that if we were not able to obtain reasonable facilities from the commercial banks they would reconsider the position.

1982. But they have not promised in any event to support you?—They felt that it was not really right, from their point of view, that they should assist us. But I would like to make it quite clear that as our law stands at present, even if the Reserve Bank were willing to help us, it could only help us in so far as short-date money is concerned.

1983. I suppose we have exhausted the subject now; and I have to thank you for giving us such comprehensive evidence. —I don't think there is anything else.

MONDAY, 22ND DECEMBER, 1924.

Mr. John Paul Gibson (examined).

1985. (Professor Kemmerer.) What is your position?—Senior General Manager of the Standard Bank of South Africa. I got your invitation on Thursday in Capetown, accompanied by a questionnaire. I left the following morning, and had a rush to get away, so I was really unable to look into it. But if you would like a statement prepared, I will do that after I have had a talk with you and send it up, or I will stay in Pretoria and hand it over to you here. If possible, I want to get home for Christmas.

1986. A good many of the points covered by the questionnaire we hope to bring out in our discussion this morning, but it might be a good plan for you to put in a statement. (Mr. Middleton.) Mr. Gibson might send it early in the new year?—I will see that you get it early in the new year.

1987. (Professor Kemmerer.) How long have you been in the banking business in South Africa?—Since 1897.

1988. Have you always been with the Standard Bank?—No. I was trained in the Bank of Scotland; I have been Home on two or three occasions; I have spent seven or eight years in London since 1897.
1990. You have been in South Africa during the period that South Africa was on the gold basis and you have been here since inconvertibility, so you have seen both?—Yes, and I have held responsible positions throughout both periods.

1990. You know that the main question that is placed by the Government before this Commission, and upon which the Government wishes the advice of this Commission, is the question of the advisability of South Africa's returning to an effective gold standard 1st July next, regardless of what action may be taken by Great Britain; in other words, the question is whether the present legislation shall be carried out, or a change shall be made either postponing the time of the return to the gold standard or in some other way altering the situation as it exists at the present time?—That I understand.

1991. What we want in the main is your judgment as an experienced banker on that question, with the reasons for your opinion. We don't want to limit you in your expression of opinion, although we shall ask a good many specific questions. The one thing we are anxious to get is your message to us.—My views you are probably aware of, as you will have seen evidence of mine previously given.

1992. We have read, I think, all of your previous testimony.—My view is that it would be decidedly unwise for South Africa to take what I consider the very serious step of returning to the gold standard as an individual unit. The position of South Africa is that she is relatively a heavily debtor country, but, just at present, we are in the position of actually being above gold parity. The dollar-sterling rate this morning is 4.70.

1993. Your discount rate on London is 3½ per cent. for the purchase of telegraphic transfers? The American rate gives sterling about 3.4 discount, and South Africa is about 3.5 above sterling, so South Africa is slightly above gold parity?—On the buying rate we are slightly above gold parity.

1994. In figuring as to whether you are above or below parity, should you take your buying rate for T.T. or your selling rate for T.T., or the mean between the two?—For the purposes of seeing what the gold parity position is, the mean should be taken.

1995. You would not be quite at gold parity measured by the mean?—No.

1996. We want your reasons for the opinion you have just given. As I understand it, about two years ago, in March, when you gave your previous testimony on this subject, the cross-rate between New York and London was about 4.70, and the T.T. rate here was between 3 and 3½ per cent. So there is a remarkable similarity. You are practically in the situation you were in two years ago as regards these rates?—We have the same situation as regards the difference between sterling and the dollar. But our exchange rate is affected by seasonal trade, and this is a very heavy wool export season.

1997. You had about the same rates in March, 1923?—In March, 1923, the T.T. buying rate was then 2½ per cent., a difference of 1 per cent.

1998. The New York-London cross-rate was about the same then as now?—Yes, I think it was. The American rate about that time came down to a little over 3 per cent. premium on sterling.

1999. You speak of seasonal changes. I notice here in a table of rates furnished us by the Government, that the T.T. buying rate was 3 per cent. discount 2nd January. It continued at that point until 28th January, when it was changed to 3½ per cent. discount. Then it was changed to 3 per cent. discount, 18th February; to 2½ per cent. 10th May; to 3 per cent. 20th October; and then to 3½ per cent. 8th November. So, as far as the T.T. buying rate is concerned, therefore, there has been a rather remarkable stability throughout the year despite the ups and downs of the New York-London cross-rate, which has risen from an average of 4.239 for January of this year to the present rate of about 4.70?—That is very largely due to the trade position; I should say, almost entirely. There is this to be said, that the
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rate has not responded, perhaps, so promptly to the trade position as it would otherwise have done had funds not been laid down previously in London, because the banks were anxious, if possible, not to add to those accumulations.

2000. You have very large balances in London now?—For our requirements, yes.

2001. Could you give us some idea as to how large those balances are?—Is this information to be published?

2002. Yes, I suppose it is.—That matter was raised recently by a committee of the Chamber of Mines. We regard our London balances as part of the internal working of the bank, and, as such, to have any outside interference would hardly be consistent with self-respect; a bank must arrange its own internal affairs, surely. I can tell you how balances have been going.

2003. I am not familiar with South African conditions, but in America we require the banks to publish such balances. This question of large balances and the effect of maintaining those balances or the effect of reducing those balances, on the whole situation here is rather vital to a proper solution of this currency problem, isn't it?—I should say the trade position is the more vital factor from the exchange point of view. We do not like excess London balances, because it is impossible to say what the position is going to be at the end of June, and, naturally, we prefer to have our funds in South African money rather than in English.

2004. If this country should return to a gold basis, we'll say, next June, and you were bringing all those balances back here, you would bring them back at a nominal loss, would you not?—That is the position we wish to avoid, and instead of accumulating balances we want to keep the balances down.

2005. That is one of the reasons you are opposed to a return to the gold basis next June?—Well, my principal reason for opposing the return to the gold basis next June is that South Africa can't possibly maintain it unless sterling is at parity with the dollar.

2006. But this fact that you have large balances in London, and would probably lose nominally if this country should stabilize, doesn't that have any influence on your position?—The position is not at all serious at the present rate between sterling and the dollar.

2007. But the present rate may not persist?—That is so.

2008. If sterling should decline?—That is the reason we don't want to have excess balances. We have been struggling to keep them down.

2009. Why don't you reduce your selling rates and bring the money home?—You might reduce your rates, but if you continue at gold parity there is not much room for reduction.

2010. If you should reduce your rates substantially tomorrow, would not those balances tend to come home?—If you reduce selling rates you actually put them at gold parity, and buying rates are above gold parity now.

2011. Only within the last few days?—Within the last few days.

2012. You have kept your rates pretty steady for some time?—Supposing you do adhere to the present rate, if there is a very slight improvement in the sterling-dollar exchange it means we will have the gold output of the country minted very soon. That will bring the solution of the problem along other lines, but equally good lines.

2013. How long have you been accumulating these balances?—We always have a balance; it fluctuates more or less, but excess balances to-day are really not very serious. We have been keeping these balances as low as we could.

2014. You have had substantial balances for a considerable length of time?—As a matter of fact, in 1920 we cleaned out London balances and ran on to the other side. The banks then had no London balances and were borrowing money.

2015. How was it early in 1924?—The position is not so bad as it was at the beginning of the year. We have been able to get back some of our money.
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2016. Good portions of the balances were accumulated there, were they not, when the gold value of the pound sterling was considerably lower than it is now?—Yes, that is so, undoubtedly.  

2017. And to the extent that the value of the pound has risen during the period you have had these balances, you have made a real gain on the value of the balances?—We have not made that gain, because we have actually reduced our balances. We have reduced our London balances by 24 millions since the beginning of the year.  

2018. You still have substantial sums there that you held at the beginning of the year?—We have substantial sums, but we keep substantial sums in London.  

2019. You have gained to the extent that you have kept balances there by the appreciation in the value of the pound?—That would naturally follow. If you charge a rate and your London balances appreciated to gold parity, the rate must be to your advantage.  

2020. That is the point I am making, so that when you are speaking of a possible loss to your bank, if you should realize on those balances at 3, 4, or 5 per cent. discount, that would not be so much a loss as a failure to make an additional gain. A large part of those balances was accumulated there at a much lower value of the pound sterling than exists now?—That is the position. The balances fluctuate considerably. But our London balances at the present time are not as high as they were. They are really not cumbersomely excessive, because we have reduced them.  

2021. If sterling goes back to the gold par you would make an additional profit on the balances that you hold there, would you not?—We don’t hold so very much over the average. We have to have balances in London. We ran them off in 1920, and some of the other banks did the same. I think. But the balances came up again steadily. By the middle of 1922 we were running a fair average balance, and it has been at or above the average ever since, with fluctuations of perhaps 3 or 4 millions.  

2022. (Dr. Vissering.) How do you get these balances in London? How are they created?—By exports from this country. We give South African pounds for English pounds in buying exchange against exports.  

2023. You are taking over the bills from here on London?—Yes, we buy the bills from exporters, and the gold mining industry does a lot of its business on a telegraphic transfer basis, not on bills.  

2024. Not in the shape of bills?—The gold business is not all in the shape of bills.  

2025. You are not speaking of gold only, but also of wool and other exported articles?—Bills are drawn against wool, and as this is the wool season, the banks’ London balances during the next three months will run up very considerably.  

2026. (Professor Kemmerer.) At what time in 1920 did you bring your balances home largely?—By the end of July we had practically cleared London balances.  

2027. You brought the funds home practically entirely before the great decline in sterling which set in the latter part of July, so that you got your funds home at a pretty good rate—I mean, at a time when the gold value of sterling was pretty high?—We got them back at very onerous rates as far as the bank was concerned. It was not a rate anything like the amount of the gold premium at that time, but still the rates at which these funds were brought back were very much in excess of the rates at which they were laid down. There were very large losses.  

2028. Sterling has gone up very decidedly in terms of gold this year. If I remember correctly, the gold premium was something like 14 per cent. about a year ago, and now it is down to somewhere between 3 and 4 per cent.?—3 to 4, yes.  

2029. So that there has been a very substantial appreciation in the value of sterling this year, and on all funds which you have kept over there you have made a substantial gain?—But we have reduced our London balances.  

2030. You gain on the amount that you leave there?—Yes, but the amount we wish left there is just the average amount that we always carry.
2031. Whether it is the average amount or not, you have made a substantial gain on what you have left there?—That is so. If you buy at a rate and then the rate proves that there is no necessity for it, and later on you go to gold parity, naturally there must be an advantage.

2032. If sterling continues to move toward par, you gain further in the gold value of these balances, but if sterling turns around and goes the other direction, and you still have those balances there, you will lose in the gold value of the balances?—Yes, if sterling goes on progressing and rates are maintained, the minting of gold in this country is inevitable, so that instead of having the balances in London, we would have gold coin here. If there is further appreciation of sterling towards gold, and the actual gold is held here, you could not have the rate and the gold both.

2033. As to the amount of these balances, I want to be sure of your attitude. You don't wish, I understand, to give us the amount of those balances at the present time?—I think it is part of the bank's internal working. If the disclosure of the amount of the London balances is to be used to interfere with the discretion of the banks in the movement of exchange rates to the trade position, I do not think they should be disclosed.

2034. Is there much competition here between the banks in regard to exchange?—There is not much competition between the banks, but there is a large amount of outside competition.

2035. Just where would be the disadvantage of making public the amount of these balances? I am not quite clear on that?—The average man, in the absence of special knowledge of the position, could not draw any correct conclusions from a statement of London balances. What use would it be to him?

2036. If it isn't of any use to him, it would not be any harm for him to know it?—It would do no good. There has been a demand made on the banks now to disclose the balances because it is said the rates are not justified.

2037. I don't see what the disadvantage is of making known these balances to a Commission like this in connexion with a report that will not be published for some little time. The balances will be changed by the time the report is made, and the Commission would like to know them as an aid to the working out of this important problem. Well, I have got no objection to supplying the balances, confidentially. But you want to make use of them in your report.

2038. We want to make it public in the course of time. This will not be made public until the report is published. That naturally must take some little time. Your balances presumably will be changed by that time.—The balances are continually changing. We regard an average balance of four or even five millions in London as not excessive.

2039. (Dr. Vissering.) How can you sell these London balances? Are you selling to the Government, for instance, for payments of interest or amortization on what has been borrowed in London?—Unfortunately, the Government have been borrowing for London requirements. That has made the exchange position more difficult in South Africa. Instead of remitting money Home for Government disbursements, money has been borrowed in London, so that from this source the bank's London balances have not been cleared.

2040. The money borrowed has been used to pay off the debts of the Government in London, floating debts. Has that not been the case?—Well, formerly, I think, nearly all Government requirements were transferred from this side, and the disbursements were made from South African balances in London, but recently, as you know, the Government floated a loan of eight millions in London. Several loans have been floated in London in recent years and the proceeds used for Government requirements—interest, stores, etc.

2041. It has not been remitted to Africa?—Not that I am aware of. Nothing has been remitted through the banks so far as I
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know. The London requirements are fairly heavy. If the Government raise money in London I think they keep it there. Mr. Middleton will be able to tell us.

(Mr. Middleton.) Instead of remitting, the money is retained to meet disbursements.

2042. (Dr. Vissering.) The remittances to South Africa come in the shape of goods and commodities?—Goods and commodities, and, to some extent, in stocks and shares. Then there has been the transfer of money to this side through settlers.

2043. (Prof. Kemmerer.) How about the rate of interest here in South Africa as compared with the rate of interest on similar investments in London?—It is much higher. The rate of interest, of course, is very largely a matter of the stage of a country's development. Our rate of interest is not much higher than Australia or Canada, for instance.

2044. If the rate of interest is considerably higher in South Africa than in London, why do you think it desirable as a matter of policy to keep balances of four or five millions in London right along, that is, in a market where the rate of interest is lower? The presumption would seem to be that a bank having funds which it could use in a money market where the rate was low, or where the rate was high, would keep those funds where the rate was high?

—If you have a market in which to employ them, but there is not scope for their employment in South Africa, and here we have no short loan market. These funds are really surplus, in a way: an amount kept in hand to give sufficient elbow-room.

2045. To take up the slack?—That is really what it is.

2046. Your point is that you are keeping these funds in London where they can be safely employed?—Yes.

2047. Because they cannot be employed profitably here?—There is no short loan market in South Africa. As a matter of fact, up to recently, we had over a million and three-quarters with the Government on Treasury bills, simply to employ some of the surplus money we have in South Africa.

2048. Does that mean that the banks here are overcapitalized? It would seem if you need to keep such large balances over in London because those funds cannot be used here, that perhaps the banks of this country are overcapitalized?—No, they are not overcapitalized. There has been this enormous decline in values in recent years, and at present there is little demand for money in South Africa.

2049. I suppose the demand is to a considerable extent a question of discount rates and exchange rates and so on?—Not in a country like this.

2050. You would not increase the demand at all if you would make the exchange rates more favourable to importers here in the country, and if you would make the discount rates here more favourable to borrowers?—The exchange rates undoubtedly, but not the ordinary rates of interest and discount. A slight alteration in the rate would not affect the demand very much.

2051. How about a substantial alteration in the rate?—You could not, as a matter of fact, make a substantial alteration because the bank could not work at a profit and it could not go on working at a loss.

2052. You are getting a pretty low rate of interest on the other side for your money?—It is better to get a low return than nothing at all.

2053. You could reduce the rate here considerably and still get as high a rate as you can get over there?—Well, the money employed in London is only a portion of our funds.

2054. I am speaking of that particular portion?—If South African rates were brought right down to the London rates, they might as well go out of business, because no bank could live.

2055. Low rates stimulate trade and business and, after all, in the long run they might give you a very much larger return and also help to develop the country?—I have just told you our rates compare very favorably with countries elsewhere, namely, Australia, New Zealand, and Canada.
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2056. But those countries don't keep big balances abroad the way you do. They draw pretty heavily. Canada, for example, is continually borrowing in America. She has funds in New York, but she is quite likely to be drawing heavily on her New York balances. Capital is worth more in Canada than it is in New York. I don't believe that the commercial banks of Canada on the average are keeping on the New York market as large a portion of their funds as you are keeping on the London market?—This is largely English money. Our principal dealings are in South Africa, but we have a considerable amount of English money.

2057. You don't operate in any other country?—We are in New York. We were recently in Holland.

2058. You don't operate to any extent in those markets?—Very considerably.

2059. You do? How do you operate in the New York market?—We do a very big business between New York and London. We also do a large business between New York and Australia. I think we probably do the biggest Australian business in New York.

2060. You have branches in Australia?—No, we have agents.

2061. That means that these large balances which you have in London you are using for operating between New York and Australia and between New York and London?—I should explain perhaps that we are an English registered company. Our capital is English capital, and we have fairly large reserves. A part of the surplus funds in London is English money, but as a bank trading in South Africa we prefer, if possible, to utilize our funds in South Africa. It does not follow, however, that we are going to bring out London money if we cannot employ it here, but can use it there, although not to the same advantage.

2062. Do you keep any considerable funds in New York?—New York finances itself from London.

2063. The bank always has considerable funds available in New York?—They don't require to hold large funds in New York, but I do not know the extent of their funds. The exchange market is so active there that if they want funds it is very easy to get them at a minute's notice.

2064. Do you quote rates here regularly between South Africa and New York?—Yes, exchange rates.

2065. Do you publish those rates?—Yes.

2066. Could you give us a table of the rates over recent years between New York and either the Cape or Johannesburg, your buying and selling rates?—The New York rates are London rates, plus one-quarter per cent.

2067. Is it the rate from here to London, plus the rate from London to New York, plus one-fourth of one per cent. on what?—I see the point you want. Suppose an American bill is submitted for purchase, say, 10,000 dollars. The conversion of that bill at the latest sterling dollar rate would give so much sterling. The amount of sterling so arrived at would be subject to the Cape-London buying rate, plus one-quarter of one per cent.

2068. (Dr. Vissering.) Do you publish them?—I think every paper in South Africa does so.

2069. (Professor Kemmerer.) I am not clear yet. The rate here, we'll say the Cape rate on New York, would be made up by taking the Cape-London rate, adding to it the New York-London rate, and adding one-fourth of one per cent. on what? On the total rate or on the New York-London rate?—I see the point you want. Suppose an American bill is submitted for purchase, say, 10,000 dollars. The conversion of that bill at the latest sterling dollar rate would give so much sterling. The amount of sterling so arrived at would be subject to the Cape-London buying rate, plus one-quarter of one per cent.

2070. My statement then is practically correct?—Yes, that is so.

2071. Why don't you deal directly with New York? You can have funds in New York when you want to?—But we do deal direct with New York.
2072. Why don't you have a direct exchange between here and New York instead of a roundabout rate through London?—If you are going to have a direct exchange with New York, you would have to keep your books in dollars on this side. 

2073. The banks in most countries have direct exchange with any number of different countries?—It comes to exactly the same thing. It does not make any difference. 

2074. I should think it would make quite a difference at times. You could buy bills here, for example, directly on New York. You could sell drafts directly on New York. You could cover your purchases by your sales. You could carry on business between here and New York, direct business, protecting yourself by offsetting purchases and sales without any particular reference to London, if you wanted to. That is certainly done in many other places?—Well, it comes to exactly the same thing. It is really not roundabout. 

2075. In that case you would eliminate the ups and downs of sterling?—Oh, no. It is a question of South African money and New-York money. You cannot eliminate the ups and downs of sterling. 

2076. You can, as far as values are concerned. Sterling is one monetary unit. I grant that your capital is in terms of sterling, but you could operate here directly with New York throughout the year and make your gains and losses and convert them at any time you wished to into their sterling equivalents?—I think you have to make some allowance for the position of colonial exchange. In a country like South Africa the banker has got to do all the business for his customer that comes along. There is no question of saying: "I buy so much and sell so much." You take what is offered to you. 

2077. Why?—You have to meet the requirements of your client. It is the South African practice. If the quality is right, we take what is offered to us by clients. 

2078. There is no necessity. If, for instance, you had enormous balances on the other side, and didn't want any more, you could either refuse to purchase further bills or you could so reduce the rate at which you purchased them as to discourage the offering of large sums?—Take it as regards wool; then your wool exports would not go out. Unless you buy the bills, the produce is not shipped. 

2079. There is no competition between the banks here for that sort of thing?—There is competition for the business that is offering, naturally, and there is a lot of outside competition too. 

2080. The banks get together pretty well and agree on these rates, do they not?—The exchange rates are agreed upon. 

2081. And they persist until a change is made?—Yes. 

2082. Do all the banks come into this agreement?—Yes. 

2083. Does the Reserve come into this agreement?—The Reserve Bank is not in it. 

2084. But all the other banks are?—Yes. 

2085. What is your basis for determining what the rate shall be?—The trade position as it is affecting business. 

2086. What does that mean?—It means during the months when we are buying very heavily, say, in wool exchange, at the coast, if we find that purchases are very much exceeding sales, the movement of the rates would be in the direction of stimulating sales; that is, stimulating imports. But in a country like this you cannot move rates every day, and the result is that, in times of great pressure of exports, money does accumulate in London. 

2087. If you move the rates down so that an importer can buy his pounds sterling for less and less pounds South African that does stimulate imports then?—Naturally. 

2088. And that reduces your balances abroad?—Yes, we had an example of that in 1920, when we ran off the balances altogether. 

2089. Do such reductions in the rate have any considerable effect in stimulating the demands for exchange in London?—When getting to a rate of 5 per cent. it becomes more apparent. Of course, every alteration of one-half per cent. in the rate
naturally must stimulate. You could hardly see to what extent business results from a slight alteration, but it is very evident at the higher rates.

2090. The more you reduce your rate, the more you stimulate imports and the more you reduce your balances abroad?—And the more you take capital out of South Africa, of course.

2091. One striking fact to us in the evidence so far submitted is that the rates between here and London seem to be altogether too high as compared with the relative price levels of the two countries. For example, the figures for a few months ago showed that the discount of sterling in terms of South African pounds was, I believe, about 2½ per cent.?—In August it was 2½ per cent. for the purchase of T.T.

2092. The price level in London at that time, as compared with the 1913 price level was 165; that is, 65 per cent. higher than in 1913. The price level here at that time was about 25 per cent. higher. So that your South African pound, as measured by its purchasing power over a large group of goods, was more valuable than the British pound, as measured in goods over there, by the ratio of 165 to 125 or by 32 per cent., while the value of the South African pound, as measured by your exchange rate, was only more valuable than the pound sterling by the ratio of about 102½ to 100, or 2½ per cent. /—Yes.

2093. Which would seem to show that your pound here was very much more valuable, when compared with sterling in London, as measured in purchasing power than as measured by exchange rates, and that if the exchange rate were to express the relative value of the two monetary units as shown in their purchasing powers you would have to have a very great reduction in exchange rates here. Now you say if you reduce the exchange rates you do stimulate imports and, of course, I suppose, equally retard your exports. And it is just these forces that tend to bring the price levels of one country into harmony with those of another. But you refuse to let them operate freely. South Africa seems to be unduly deflated in comparison with almost any other country in the world, as measured by prices?—Yes, but in speaking of deflation you have to have some regard to the point where you started to deflate from. In South Africa we started to deflate from a much lower level than you did in the States even.

2094. A lower level?—A much lower level. Our cost of living never went quite so high in South Africa as yours did in America.

2095. (Dr. Vissering.) On the face of it, don't you think, in 1913 the prices were much higher in South Africa and the cost of living in South Africa higher than elsewhere?—Yes, that is so. We started from a higher basis, and starting from that higher basis, 1913 is taken as 100. That 100 was really higher than, say, Holland, for instance; considerably higher.

2096. (Professor Kemmer.) I have some figures here bearing directly on that subject, taken from a recent volume of the League of Nations. It lists a large number of countries and shows their price levels in 1913 and their price levels in 1920, 1921, 1922, and 1923?—Yes, I went through those figures some months ago.

2097. It shows the percentage decline from the maximum quarterly figure in each of these different countries. Taking the latest figures available for these countries, i.e. bringing the above figures down to date, we find that the first twelve of the countries listed ranged something like this: Egypt had a high figure of 363. The latest figure available for Egypt is 149 for September of this year, which shows a decline from the high rate in Egypt of 59 per cent. The next greatest decline was Sweden. Sweden had a higher figure of 375. It declined to 163 in September, which gives it a percentage decline of 56.5. The third highest was the United Kingdom. The United Kingdom had a high figure of 322. It came down to 167 in September of this year, representing a decline of 48 per cent. The next greatest decline was the Netherlands. It had a high figure of 304. It declined to 159 in September, representing a decline of 47½ per cent., and the fifth in this list of twelve was South Africa, which had a high figure of 232.
It declined to 125, representing a decline of 46 per cent. from the high; it has since advanced to 154 in September, a decline of 39¾ per cent. And after Canada comes the United States, which is on a gold basis?—What is the highest cost of living figure touched by the States?—And you are down to what?

2099. 149 in September of this year. I am taking the quarterly figures as published by the League of Nations. 243 is the United States figure in 1920, which represents the highest price level at the end of any quarterly period. I have made the comparison for all countries on the same basis. The United States declined from 243 to 149 in September, 1924—a decline of 38½ per cent. Australia declined 33¾ per cent. New Zealand declined 17¾ per cent. Spain 18 per cent., British India 14 per cent., and so on. There are twenty-six different countries given in the League of Nations table. You will find two important facts as regards South Africa: first, that South Africa has declined from the high farther than most of the countries in the list, and, second, that comparing the South African price level today with the price level of 1913, South Africa has deflated, or in other words, is lower with reference to 1913 than any other country in the whole list of twenty-six countries?—Yes. You have got to remember that some of that deflation is represented in the actual cost of foodstuffs produced in this country, which makes the cost of living cheaper. Heavy stuff that instead of importing you produce here and consume here. It is some time ago since I studied these figures. You have given me the figures for South Africa as 232 to 155 and the States as 243 to 155 and the States as 243 to 149. That is a bigger decline.

2100. No, South Africa is 232 to 125 in July, 1924. So the evidence seems to show that South Africa has deflated vigorously, and as far as one can judge from the purchasing power of money here, which is the real test of what money is worth, that you have deflated relative to 1913 more than any other important country that has been anywhere near the gold basis during this period, and probably to a lower level than you ought to have to be in equilibrium with gold. It would seem to imply that either your price level is altogether too low or your exchange rate is altogether too high?—I don't think you can regulate exchange exactly with price levels.

2101. Isn't that a final test?—It is the final test once you have got adjustment, but the level is continually in course of adjustment. A merchant only buys drafts in order to buy goods, and he only buys goods in the markets where the goods are relatively cheap; he only sells foreign bills in order to get the proceeds from the goods he has sold abroad. He sells in the best markets, and large price levels and exchange rates must be forced into harmony by the mechanism of national economic forces?—I think you must allow time for adjustment. Take a rush such as we have now—the wool export season. You have a rate of exchange which is quite ineffective, and at that rate you are giving South African pounds for English pounds; and the English pounds are rushing up by millions. Now, what is your remedy? Are you going to say the price level does not justify altering the rate? Are you going to say: “I don't want these English pounds”? How are you going to meet the position?

2102. I am asking you. I am putting our position before you.—Would you say: “Go by price levels in a case like that”? You must consider this country. If you are just going to buy and sell so much, the country is going to be left in the lurch.

2103. How do you mean?—The exports won't go out.

2104. You are not going to give goods away; you are going to export them only when you get something in return, and the ordinary thing you get in return is imports, isn't it?—I quite agree
with the theory. In a country like South Africa you can’t exactly follow price levels in the matter of exchange. In actual working you have got to deal with the position that arises from day to day. If you don’t meet that position, if you don’t conduct your business on these methods, you would be in queer street before very long. We are really a small community in South Africa. You cannot apply the methods of America and England. A merchant in the matter of price level does not buy because a thing is cheap; he buys exactly what he thinks he can sell, and in small quantities relatively to the needs of the country.

2106. Every one recognizes the existence of a lag. It is a question of how long a time it takes to take up that lag. But the evidence we have, I think, in the various studies that have been made, is that there is a strong tendency, as soon as you stop inflating or stop deflating, for that slack to be taken up and for the exchange rates and the price levels to be brought into harmony. The adjustment goes on steadily, and the adjustment is very much more complete as you get more stable conditions.

2107. The principal reasons why any one wants to buy foreign drafts are to buy foreign commodities and securities and to pay foreign debts. When he buys goods or securities he comes into contact with the foreign price level, and he tends to buy these goods in those places where the price level is lowest, namely, where he gets the greatest advantage. It stands to reason.

2108. When the exchange and the price level are out of harmony, if there is a free market, he tends to buy in the country where prices relative to exchange are most favourable to him, and likewise to sell in the country where, taking into account the prices at which he can sell his goods and the exchange rates at which he can sell the foreign money he receives, he will receive the maximum amount of his home money.

2109. You said a few minutes ago, if I remember correctly, that if South Africa should return to the gold basis independently of Great Britain, there would be a danger that she would lose her gold?—That is to say, of course, if there were a difference between the British pound and the South African pound. If sterling goes to parity with the dollar, South Africa will not lose her gold; if sterling recedes in value, she is bound to lose it.

2110. But why?—On the trading position. How could you maintain a rate in South Africa that would keep our gold reserves if the trading position is against us?

2111. Gold does not go out of a country unless it is more valuable abroad than at home?—That is so.

2112. The more gold that goes out the scarcer and therefore the more valuable it becomes at home. As soon as the outflow became unduly large, banks would jack-up their discount rates, and the exchange rate would tend downward, registering an increasingly valuable South African pound. The fact that gold was becoming increasingly valuable at home would very soon stop the outflow—You could put up your discount rate and your exchange rate, but the exchange rate would not be adjusted to the position.

2113. Why not?—Because the business is not there to do it. You would either be buying far too much or selling too much. In the beginning of 1920 we were buying far too much. In the middle of 1920 we were selling far too much.

2114. The more you put up your exchange rates the more you would cut into profits of imports and add to the profits of exports?—You cannot put up the exchange rate independently of the trade position. It is an impossibility.

2115. It is a part of the trade position?—If you adjusted your rates to the trade position and rates were not effective, you would soon have to let your gold go out, but you would never get it back.

2116. What effect does that have on the exchange?—It would ruin the trade of the country.

2117. It puts down the exchange?—It will improve the position just for the minute.
2118. It makes it tighter and tighter, and that stops the outflow of gold. That is what happened in every gold-standard country in the world in pre-war days?—Our ten millions of gold would hardly count. You would lose it and never get it back.

2119. This is the biggest gold-producing country in the world?—We produce it as a commodity.

2120. What is the difference between gold as a commodity and gold as specie in international trade? Can you tell the difference?—There has been a considerable difference as a matter of fact, because we have been handicapped in the movement of gold. The movement of mined gold has been practically free, and the movement of coined gold has not been.

2121. But you can melt down coined gold?—You can now.

2122. I don't see what difference there is, as far as foreign purposes are concerned, between coined gold and bullion gold, for the one can be readily transformed into the other. If you have a foreign payment to make, you can make it by means of gold bars just as well as by means of gold coin.—That I admit. That is accepted everywhere: you can pay in gold bars just as well as in gold coin. Suppose the position was such that, in order to protect the gold reserves of the country a selling rate for telegraphic transfers on London of 5 per cent. was required. You know that, if you are going to draw on London at the rate of 5 per cent., you have got to pay. You can pay by means of the country that will provide sufficient buying exchange to cover the business on the sales side. It means that you will exhaust your London balances to begin with. To continue, you would have to borrow money in London, but soon inability to protect reserves would be evident, and you come to the point where you would have to say to clients: "I cannot give the rate; go and draw the gold, pack it, and ship it from the country." That would be done. Our ten millions of gold would go out in a very short time.

2123. But why; they don't in other gold-standard countries, and they didn't here in pre-war gold-standard days?—Because our credit is tied up in our reserves and we cannot export our gold.

2124. You can in any gold-standard country. If there is a demand here for such payments, you have first your big balances abroad. You draw on them, and you raise your exchange rate accordingly, making the rate more and more unfavourable for imports and more and more favourable for exports; then if gold goes out, your reserve balances go down, your discount rates go up, your price level tends downward, and gold soon comes to be more valuable in South Africa than elsewhere, and the overflow stops. You would not export an undue quantity of your gold any more than you would of your wheat or your meat or anything else. The moment you export too much of it, it becomes more valuable at home than elsewhere?—I admit. That is the position. Your credit would be gone because your gold reserves would be gone. You would have none left.

2125. We in the United States never had any such experience?—I know that, but you cannot compare the position of South Africa with the United States.

2126. What country can you compare it with?—It is very difficult to make comparisons.

2127. You don't mean to say that there are different kinds of economic laws applying to South Africa than to any other country in the world?—There is a difference. You cannot even compare it with Canada or Australia or New Zealand to-day. New Zealand and Australia are practically following sterling point by point. There is no question of breaking away from sterling.

2128. Australia is not now. I thought Australia was quite a little distance from sterling?—That is purely due to the trade position.

2129. Regardless of what it is due to, it is quite a little distance from sterling?—But there is no question of making a departure from sterling altogether. Very much of it is due to
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trade, but there will be no eventual difference. They are following sterling. But here we have the position that we may not follow sterling. We may make a departure, and to that extent we are differently situated.

2131. If South Africa, which is the largest producer of gold in the world and which is the country that is presumably, from the standpoint of the real availability of gold, in the best position of any to control the disposition of gold and which is the country that ought to be most desirous of making the best market for gold, if South Africa cannot maintain gold payments, how do you explain that little countries like Albania, Nicaragua, San Salvador, Haiti, Colombia, and many others, most of which are debtor countries to a very large extent, have been able to maintain gold payments without difficulty? And how did South Africa maintain gold payments before?—Why didn't a country like Holland maintain its gold payments?

2132. Because during the war many of these countries issued paper money to such excess that they drove out the gold. My observation is that gold is not drawn out of a country very often. It is pushed out. The value of gold is reduced so much by paper money issues that the gold is forced out and into better markets. But you are deflated now. You are deflated apparently to gold parity and probably below. If you don't push more paper into circulation, if you don't again resort to inflation, you are not going to push gold out in undue quantities. You will hold back from your annual production all you need for currency purposes and only export the balance?—Aren't you adhering too closely to the purely visible trade position?

2133. No, I am allowing for all these invisible items so far as I can?—Have you allowed for the fact that if the rates are largely in favour of South Africa, you will have an enormous efflux of capital from this country.

2134. What is your evidence of that?—I can give you evidence. With a rate of about 7½ per cent. in March, 1920, the exchange business done in the country was persistently in favour of South Africa.

2135. (Dr. Vissering.) Capital was imported?—Yes, the position was in favour of the importer. But in the early stages it was not so much the visible factor as the invisible factor of capital going out, the withdrawal of capital from this country.

2136. (Professor Kemmerer.) At what time was that?—Take the middle of March, 1920.

2137. And what happened, just please explain?—At that time we started drawing on London balances, drawing heavily on London for making London payments. In the course of four months, the selling rate moved to 7¼ per cent, and whereas the premium on gold was 30 to 40 per cent., we had a withdrawal of about 13 millions from London, which is more than our gold holding in South Africa to-day. Presumably the National Bank's experience was the same. And you can reckon that probably anything from 25 to 30 millions went out. That was induced by a 7½ per cent. rate, but, as stated, the gold premium at that time was 30 to 40 per cent.

2138. That was the time of the collapse of world prices after the end of the long war and post-war inflation period, was it not?—Yes.

2139. If you take the price levels in almost any country in the world, certainly any country on a gold basis or near to a gold basis, you will find that there was a tremendous collapse in prices?—There was no collapse in the gold premium.

2140. I am talking about the value of gold as measured by its purchasing power. Gold rose in value enormously?—Yes.

2141. The price levels of countries all over the world had been held up at very artificial levels through war conditions and through inflation. In 1920 there was a collapse, and this collapse took place in practically every country in the world. The collapse took place in gold-standard countries as well as in countries which were not on the gold-standard. Now, apparently, what happened here was
what happened in South America, and what happened pretty generally everywhere. Countries had been exporting fairly heavily under war conditions, and they had been having great difficulty in importing supplies. Orders were not filled promptly, so they ordered more than they wished, with the expectation of getting a part of the goods. They would often order two or three times as much as they needed, because they knew their orders were being reduced and/or greatly delayed in being fulfilled. Imports were down and exports were up in many countries, especially neutral countries. Then, when the collapse came, the exporters on the other side, wanting to take advantage of the high prices before it was too late, began to unload great quantities of goods in fulfilling these delayed unfulfilled orders. Meanwhile they refused buying goods because of the collapse of prices except at prices so low as to be inaccessible to sellers. And so, you found here, as you found in the Argentine, in Uruguay, in Brazil, in Chile, in Central America, and all over—I have been in a large number of these countries lately—a great influx of goods, a decline in exports, and a smashing of the exchange rates. All of this was part of the process of revaluing monetary units. I have here the monthly figures of imports and exports of South Africa for a number of years. Ordinarily, this country has a very big excess of visible exports over visible imports. The year 1919 showed a great excess of exports over imports, and the year 1920 showed a substantial excess of imports over exports, but the following year and every year since has shown an excess of exports?—No, I stated the position as it was at the time. We must get away from the visible altogether as regards this. This was an invisible factor, and was brought into it to the extent that instead of buying goods people were buying English money, converting South African money into pounds, because they preferred to have £1071 English to £100 South African.

2142. Were not they paying South African money for this excess of imports over exports?—No, not at all. Why, every Tom, Dick, and Harry in the country was sending money out.

2143. This excess of imports itself would explain a considerable part of it. Here you had right through the latter part of the year a heavy excess of imports over exports, and naturally you must pay for what you are buying?—I admit it does explain it to a certain extent, but not altogether, because the biggest factor was the export of capital from this country.

2144. How is capital exported?—People came and said: "Transfer £1,000 for me." You gave them a telegraphic transfer on London. They got £1071 in London for their £100 here.

2145. Capital in a country like this is pretty largely invested in mines, farms, factories, and all sorts of fixed equipment, is it not? You cannot export that kind of capital very readily, can you?—People even borrowed money in order to export it, and take advantage of this rate.

2146. I am following this up because we have found a number of people who entirely disagree with your position?—It is the invisible more than the visible. The visible was responsible to a very large extent, but the invisible to an even larger extent.

2147. In this item of the invisible imports there is another important factor, is there not? If any concern here was indebted to Europe, and had had a running obligation for some time, when exchange became very favourable, as it did then, the tendency was for it to say: "Now conditions are favourable, I will pay that debt"?—Naturally.

2148. Then, again, you have the desire to pay past debts. Then there were certain people who, as you say, said: "We can buy £100 sterling for £921 South African, and it is a good speculation." Of course to the extent that they did that they raised up exchange and the higher the rate rose the less would be their prospective profits, so that such speculation sooner or later checks itself. But we have been examining great contraction that took place at that time in bank balances here, which is given as one of
the evidences of the exportation of capital in 1920 and immediately thereafter. That has been cited several times. There undoubtedly has been a very decided contraction of bank deposits here since the forepart of 1920. But if you will allow for the fact that the South African pound in terms of purchasing power went up from the second quarter of 1920 to the third quarter of 1921 by about 68 per cent., the price level falling in that period from an index number of 232 to 138, you will find in the increased value of your pound ample explanation for the greater part of these reductions. In early 1920 you were measuring values with a "two-foot yardstick," and in the latter part of 1921 and since with "a yardstick three feet or more in length." The same actual values would, therefore, be expressed in less than two-thirds as many pounds South African since the third quarter of 1921 and in early 1920. So far as South Africa's published bank records are concerned, there is evidence of very little withdrawal of capital—I went through all this. It was a pretty bad period. I know the position very closely. What I say is correct. It was the invisible factor more than the visible factor that was responsible for this enormous reduction in capital. Theoretically I agree with all you have to say, but I say it has not worked out in practice. You have not allowed sufficiently for the invisible.

2149. Were they transferring South African pounds out of this country permanently?—No. I think one house transferred money to the extent of something like half a million. That was a speculation?—I suppose they had the money. They reckoned they might just as well have it in England. Then, when the rates swung round, they brought it back. I know of municipalities that transferred very large sums. The holders at that time of South African money said: "We'll convert this into English money because we believe we'll be better off.

2150. The more they tried to do that the more unfavourable the exchange rate became for their doing it, didn't it?—There were other factors entering into the position at that time. The country then was just getting through the Currency and Banking Act (1920). If there were very heavy demands for exchange for withdrawing capital for speculative purposes, I should think the banks would have jacked-up their exchange rate, and the more they jacked-up the rate the less profit there would presumably be on such a speculation. Funds transferred over there speculators had to invest at much lower rates of interest than they would have realized here. Then, also, they would be running the risk that sterling might depreciate still further so that they might have to bring their money back to South Africa at even less favourable rates than those at which they sent it over. There was a good deal of speculation about it, wasn't there?—There was speculation in it, but for people sufficiently conversant with the position there was a way out; for instance, there were a number of our companies here whose shares could be registered in England or South Africa. That position was not altered, although the values of the two currencies had altered; so that a good deal of buying was taking place in the way of moving stocks and shares from the other side to this.

2153. Here you have a situation of a world-wide decline in prices after the greatest war in the world's history. The same sort of decline took place even in a gold-standard country like the United States. In America there was a decline in the price level from an average of 226 for the whole year 1920 to 147 for the year 1921—a decline of 34 per cent. This is a tremendous collapse of prices for one year. A decline of that kind took place in every gold-standard country of the world, and, so far as I know, in every paper-money country, except a few that were progressively inflating at the time. I don't know of anything like it before in the world's history. It isn't reasonable, as I see it, to judge what is going to happen in the future by the catastrophic change which took place after the great world war?—You had that break in America. You had the break in South
Africa. But while we had this enormous efflux of capital from South Africa, you did not have an enormous efflux from the States.

2154. If you judge by the kind of figures that are usually employed as evidence of an efflux of capital in 1920 and 1921, there was an efflux of capital from every country in the world at that time, one wonders really where it was all going to?—There was contraction, but can you demonstrate that there was actually a movement such as we had in South Africa? There was that contraction everywhere, but was there an efflux?

2155. What is your evidence that there was an efflux from here?—There was a contraction, and money went out at the same time.

2156. There was speculation in exchange in all these countries—enormous speculation in many of them. But it seems to me that if you use as your evidence of the efflux of capital the contraction of bank balances, the reduction of bank assets and similar figures expressing values in rapidly appreciating money units you would find a great efflux of capital in practically every country. I am not giving you actual facts, I am telling you what actually took place. We know what the contraction of our balances was, the contraction was not so very great over that period. We started at 94 millions total deposits in South Africa and went down to 85 millions. Evidently the actual contraction was something like 8 to 9 millions in resources. Here is a figure of deposit and other liabilities at 31st March, 1920, 103 millions, and for 1921, 85 millions, which is quite a substantial reduction. The actual note-issue figures I have not got.

2157. The notes should be taken too, should they not?—Yes, they should be taken. What are your deposit figures at the 30th June, 1920?

2158. Eighty-six millions?—I have got 85,890,000 apart from notes. Then your contraction was from 103 millions to 94 millions; say 9 millions.

2159. What was the amount of the reduction of the balances abroad?—From 25 to 30 millions.

2160. You had as big balances abroad as that at that time?—I think the banks altogether would have.

2161. And you say they are now about 4 or 5 millions?—We would like to average them at 4 or 5 millions.

2162. I just passed through an experience last year in a country which had had a depreciated paper money for a long time, which was a debtor country and which wanted to get back to the gold basis. Many people said if it went back to the gold basis it would lose all its gold, and would not be able to maintain the gold standard. The country was thrown suddenly into a great panic, and that at the time when you would expect above all times that any country would have the greatest difficulty in establishing a gold standard?—Was gold obtainable?

2163. Just let me finish the story. In the midst of that panic we organized a central bank on a gold basis, put out new notes, and offered to accept, at gold parity, convertible Government notes that were outstanding. The bank offered its own new notes in unlimited quantities on demand in gold or gold drafts. It virtually said to the public: "Come on, you can have all the gold you want."

2164. The very day that the bank opened, after several years of the suspension of specie payments in the country, and after a week of the worst panic the country ever saw, the public brought more gold to the bank for deposit than it withdrew. As soon as the public saw that they could get gold easily they did not want it. The country has been on a gold basis ever since. That country was the Republic of Colombia, a country with about the population and area of this country. It is a gold-producing country, but produces a very small quantity of gold as compared with this country. It is also a debtor country?—Did you publish the fact to the people. "Bring your old notes and we will pay you out gold"?
2164. The new notes were made by law redeemable in gold on demand and so stated on their face. The bank put out about 2 million pesos of them the first day. It actually paid out some gold also for old Government notes for which it was not responsible and received these Government notes on deposit at par. As soon as the people found they could get gold readily they didn't care a snap about it. And that country has not had the faintest difficulty of maintaining itself on the gold standard since. Recently it has been importing gold instead of exporting it?—What is the trade position of that country?

2165. Ordinarily the country's visible exports greatly exceed its visible imports, as here in South Africa, and that was the case at the time. I don't know of any country that exports more than it imports in the long run, or imports more than it exports. Countries don't give something away for nothing or receive something for nothing?—You must get a balance somewhere.

2166. It seems to me that you export gold for the same reason that you export anything else. The minute the gold you are exporting does not yield you "net" more in the foreign market than it is worth at home, you stop exporting it. If this country should export too much of its gold, which seems to me rather an unreasonable thing to expect, considering the great production of gold here, gold would soon become worth more here than abroad, and it would have to curtail its export of gold and retain more here. It would be profitable to do so?—It depends on the trade position.

2167. The trade position itself is governed by these very things, by the ups and downs of exchange rates, discount rates, and prices?—You have not got uniformity in the trade position. One month you might have a rate, if you were on a gold basis, that would more than enable you to maintain your gold basis. In the next month or two the position might change so much that it was altogether the other way. If you have arrived at uniformity and could always be in the exchange position that enabled you to maintain your gold in the country, you are all right. But if your position fluctuates and you depart from an effective-rate position at any time, the gold goes out. I can see the gold going out, but I can't see it coming back. In order to bring that gold back, you would actually have to be at gold parity plus the import cost.

2168. In other countries gold goes out when it is worth more abroad than it is at home, and it is that very outflow that brings up its value at home and re-establishes equilibrium in its international values. The ups and downs of your exchange rates, your discount rates, and your prices regulate its flow. Here, in this country, which is such a tremendous exporter of gold, I should think what would happen would simply be that if you needed more gold for money here a little less of your annual gold product would be exported. You would retain a little more of your product at home. But you would always be exporting gold. Gold will stay here rather than go abroad to the extent that it is worth more here than abroad. The regulating influence of the movement of gold going out or coming in, is one of the principal forces in maintaining your exchange rates and your prices here at gold parity; in other words, for maintaining the gold standard when it is once established?—That is so, if your gold is going to be permanently worth more here than it is elsewhere, then you are going to keep it. If it is not permanently worth more it goes out. How long does it go out? Until it is worth more at home than it is abroad—and then its outflow stops?—You must make allowances. You have a tremendous lag in a little country like this. We don't follow things closely.

2169. How long does it go out? Until it is worth more at home than it is abroad?—How much circulation of gold have you in this country?—We have none to-day. How much would you have if you were on a gold basis?—I couldn't say. It might be 7 or 8 millions.

2170. What is your annual exportation of gold from this country?—About 40 millions at the present time.
2173. By coining at your mint here and retaining in circulation a small percentage of the gold you are producing you would be able quickly to increase greatly your gold circulation—instead of importing gold we can get it here and have it minted here. So far as the country is concerned, the only difference the production of gold makes is that we can get gold here instead of importing it.

2174. It means that you don't have the expenses of importing gold into the country?—That is so.

2175. It means, also, that if any other country wants to discriminate by putting embargoes on the exportation of gold, or by putting out light-weight coins, or by artificially raising the discount rate, you are in a position to defy it, for you can hold the gold back. You tap the supply at the source. No other country can keep you from getting gold, because it comes through your hands first. You are in an independent position. Other countries cannot control you the way they might if you were not a producer of gold?—Well, from the point of view of the ability to get gold, I think at the most it is only a question of import and export. If you did want gold at any time, and one country tried to take up such an attitude, you would go to another and get it there. It might cost 1s. more.

2176. During the recent war nearly every country put up an embargo on gold exportation?—That is a different thing.

2177. If sterling keeps on moving towards gold parity?—Then you have no difficulty at all.

2178. If sterling keeps on moving towards parity at anything like the rate it has been moving during 1924, or even at half that rate, South Africa and Great Britain will be back to parity by 1st July next, or before?—Yes.

2179. When you gave testimony in March, 1923, sterling was about as near gold parity as it is now; practically the same difference. It later turned around and went down 10 per cent. or more, reaching, I think, at one time about 14 per cent. below parity. If sterling should turn around now and again decline rapidly as it did in 1923, 1919, or the greater part of 1920, I take it you would favour this country tying up with sterling and going down with it?—I would, yes—so long as the downward movement doesn't go too far.

2180. How far would you be willing to let it go?—I would not like to commit myself to a figure right out.

2181. Give us a rough estimate on it. Would you follow it down 5 per cent. or 20 per cent.?—I would follow it down to 20 or 25 per cent. I think it is a question of what is your ultimate confidence in sterling. Sterling might be prejudicially affected at any time for a short period. But if you have got confidence that sterling eventually will come back and reach parity with gold, you need not worry very much.

2182. If sterling goes down and South Africa follows it down, that means your pound would become less valuable in terms of gold?—Yes, naturally.

2183. That would mean a rise in prices, would it not?—Not necessarily. If you take the fluctuations in the premium on gold, and the fluctuations in prices, you will find that the two don't follow each other at all. There is very little resemblance.

2184. Gold has been very steady in value for the last two or three years. The American price level, which represents the value of gold, has been very stable since 1921?—That is so.

2185. If gold continues to be comparatively stable in terms of commodities in countries with free gold markets, and if sterling depreciates very rapidly in terms of gold, that would mean that sterling was becoming less valuable in terms of commodities?

2186. If that is true, if sterling depreciates in terms of commodities, prices rise. The two things are the same. If sterling should depreciate and prices should rise in Great Britain, and if this country should tie up with sterling, then the South African pound would depreciate and prices would rise here; otherwise you would not be tied up with sterling. And prices would rise here with this
lag with which we are all familiar, so long as sterling continued to depreciate. That would increase the cost of living here. What sort of effect would it have on wages here, and what would be the attitude of labour towards such a contingency?—I was interested in the very question that you are putting now. I went into the figures some time ago to see to what extent the cost of living varied with the variations in the gold premium; but I could get no uniformity at all. The lines run quite different.

2187. You would not expect that with gold itself changing in value as much as it has since 1913?—You say, suppose sterling goes away back: I think conditions to-day are considerably different from what they were in 1920. To-day you have the Dawes scheme put into working order, and a lot of very troublesome questions have been disposed of. I don't think we are free from trouble yet by any means, but I think the things that are likely to create big trouble have been fairly well disposed of. And the possibilities are reduced to that extent.

2188. If sterling goes back to par in accordance with the present policy of Great Britain, which, as far as it has been announced, is that of the Cunliffe Committee Report, then sterling would be back by year of 1st July, and South Africa is already practically back to par. But there is always the possibility that there may be a reaction. And the big question before this Commission is: If this reaction takes place—as we hope and expect it will—not should this country turn around and follow sterling on another decline, or should it say: "No, we have gone through all the evils of inflation and deflation once, and we do not intend to suffer them again; now that we have again attained gold parity we intend to stay there"?—It is a matter of confidence. If you have lost confidence in the future of sterling, naturally you won't follow it down. If you still have confidence, I don't think I would worry about any reasonable falling away.

2189. If it should go down and you should follow it down with the resulting rise in wholesale prices, rise in the cost of living, and rise in wages, and increasing demands of labour for increasing wages to compensate for the increased cost of living, with their accompanying labour troubles; and then, having followed sterling down, say, 20 or 25 per cent. as you suggest, if the policy of Great Britain, continuing to be that of the Cunliffe Committee's Report, should then take the form of another deflation programme to bring sterling back to parity, South Africa would be forced to follow her also in this deflation programme. After you had had a nice long period of rising prices and rising wages and labour troubles, and had finally gotten to the peak of inflation again, you would have to go through another period of falling prices, falling cost of living, and falling wages, accompanied by another lot of labour troubles in the mines and other industries, because labour would strenuously resist reductions in wages as the cost of living came down. You have already gone through all the evils of inflation and the maladjustments due to inflation; then you have gone through all the evils of a vigorous deflation. South Africa knows what these evils are from sad experience. Is it worth while to repeat them in order to follow sterling?—As far as I can see, if we don't follow sterling, nobody knows where we are going.

2190. If you stick to gold?—Then we are going to lose our gold. If we don't follow sterling and sterling declines, say, 10 per cent. decline, you must have a 10 per cent. rate to protect your gold. Practically you are going to put your gold in a reservoir, and the wall of the reservoir is the rate protecting it.

2191. In that case your pound here is going to be worth 10 per cent. more than the pound sterling. It will be an entirely different pound from the British pound, although bearing the same name?—I am coming to that. You have a difference of 10 per cent. between the South African pound and the English pound. To protect your South African pound, that is, to keep it in South Africa, you must have a 10 per cent. rate. Isn't that so? We are developed both with English capital very largely. The English investor would say, with regard to that 10 per cent.: "It suits me to take my
capital out." We know that with the 7½ per cent. rate they took out 25 millions. With a 10 per cent. rate they would take out 80 millions, and in a few weeks we would have to ship our gold. Our ten millions of gold will nothing like meet the position.

2192. According to your hypothesis, the South African pound would be worth 10 per cent. more than the British pound?—Take the English investor. He says: "It does not matter whether the South African pound is worth 10 per cent. more than the English pound. I want to convert my South African pounds into English pounds."

2193. How will he get it? He will have to sell something to get it out?—Suppose he has a bond: he withdraws his bond and takes out his money?

2194. But he has to sell his bond?—The man to whom he has lent the money pays it back in South Africa.

2195. But if the bond is not due he has to sell it, and sell it in the market?—That is so, but there is a lot of money due and more may be made due at once, if the English investor want it. He must have some means of realizing his investments.

2196. What money is due that he promptly collects on demand without sacrifice in values?—I gave you a practical example. What money was due when the 7½ per cent. rate was in force?

2197. These payments were largely to meet ordinary obligations arising from these temporarily heavy balances of visible imports, which you had then but don't have now?—I told you it was not visible. It was the invisible that affected the position there.

2198. The visible we know was very large, and you have given us no definite figures as to the invisible?—The visible were large, but really what affected us was the invisible. If 110 English pounds can be got for 100 South African, we are going to lose a tremendous amount. What is the position if a man says: "I would rather have £110 English than a £100 South African"? There is no use telling him that the £100 South African are equal to the £110 English. That is our experience.

2199. He is, furthermore, putting it in a market where the interest rate is very much lower than here, and then he has the expense of transmitting it in both directions if he is to bring it back later, and all the risks involved in the possibility that sterling may continue to depreciate. I cannot help but think that the British investor is more intelligent than that?—He may say that sterling is going back to gold parity, and he would rather have £110 at gold parity than £100. It is a matter of confidence entirely.

2200. That would be a question then of speculation, for a rise or fall in sterling. Now, anybody can do that at any time. People are doing it in America now. They are buying sterling to a considerable extent in anticipation of a return to parity. If it returns quickly the speculation is a good one; if it goes the other way, as it did in 1919, the latter part of 1920, and in 1923, it is a bad one. Sterling is now about 3½ per cent. below par. You are assuming a contingency in which sterling goes down to 10 per cent. Are you proposing that at that time, when it is depreciating so rapidly in terms of gold and goods, the investor is going to buy more sterling? I should think that after the experiences of 1919, 1920, and 1923, many people would want to drop sterling at such a time and get something more stable in value?—That is the position after actual distrust of a currency has set in. But I think an investor, if he has confidence in the currency and believes he can get back ten pounds more, the chances are he will take it. But once distrust has set in, quite a different position arises. There has not been any serious distrust so far. There was an alarm in 1923 when a lesser British Minister made an indiscreet statement. It believe within a few days a very large amount of sterling went out.

2201. We have had the experience in the United States, that a great many million dollars of capital have been brought to the United States in recent years from France, from England even, and from many other European countries that have had unstable
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exchanges, because people have said: "The United States is on a stable gold basis. Its dollar is as good as gold. We don't know what is going to happen to the paper moneys of other countries. War and post-war experiences with paper money are not very encouraging. We are going to put our money in dollars even at the loss of substantial differences in the interest rates that we can get. It is a case for safety first." And there has been a very substantial influx of capital into the United States for this reason. Has that happened in the Netherlands at all, Dr. Vissering? (Dr. Vissering.) Yes. The same thing. (Mr. Gibson.) I have no doubt that is the case.

2202. (Professor Kemmerer.) That as soon as the currency becomes stabilized in this country (a number of witnesses before this Commission have taken the position) there will be an increase of confidence in the country, and that this stabilization of the currency, instead of causing an outflow of capital, will strongly attract capital to South Africa, because there will be fewer risks involved with the gold standard than with a paper-money currency—You have got to face the outflow first. And that this is going to be a very large one indeed.

2203. My observation is this: Where a country on a paper-money basis goes on to the gold basis, if its currency is inflated at the time, namely, if there is too much money in circulation relative to the demand, so that its price level is above what it ought to be on the gold basis and its exchange rates are less favourable than they should be on the gold basis, then the excess of money in circulation, representing the degree of inflation, must be withdrawn in order to reduce the supply of the currency and thereby bring the value of the money unit down to gold parity. The currency circulation is reduced by the presentation of paper money for gold and the exportation of gold. The price level is thus forced downward until it reaches the point of gold parity, namely, until it reaches the point that gold is worth more at home than it is abroad. Then gold exports stop because gold parity has been reached. A comparison of South Africa's price level with the price levels of the United States or Sweden, which are on the gold standard, or of Canada, which is at gold parity, already seems to show that South Africa has deflated to gold parity, and probably considerably below; and South Africa's exchange rates show her pound to be practically at gold parity. So it seems quite improbable that South Africa will be required to go through any more contraction of its currency in order to get on to a gold basis. A short time ago Sweden went to the gold basis. At the time she returned to the gold standard her price level was apparently somewhat higher than it should have been for gold parity. She accordingly had a temporary outflow of gold, which tended to contract her currency and bring the value of her monetary unit up to gold parity. But do you think South Africa need have any further contraction?—We don't want any contraction at the present time. If we could depend on maintaining our exchange position and keep our trade position fairly uniform, it would be all right, but we are not in that position.

2204. If you were convinced that this country could maintain the gold standard when she had once adopted it, would you be willing then to say: "We should go to the gold basis 1st July next regardless of what happens to sterling"?—Certainly. If I felt convinced that South Africa could maintain the gold standard I would say so. Any banker would rather do his business or trade on the gold standard than on any other.

2205. Your only question is whether South Africa can maintain the gold standard or not. If she could maintain it you would be willing to return to the gold standard 1st July next?—I would recommend South Africa going on the gold standard if I were convinced that she could maintain it.

2206. Yet you take the position that South Africa, which produces much more than half the world's annual production of gold cannot maintain a gold standard when little countries like Albania, Nicaragua, San Salvador, Haiti, Panama, Colombia, most of which
produce no gold, can maintain the gold standard?—I think you emphasize the fact too much of South Africa producing gold. I don't consider it a very important factor in considering the gold-standard position.

2207. Isn't it to the interests of this country to have the world return to the gold basis just as soon as possible?—There is nothing I would welcome more than to see the whole world back on a gold basis. But what is our economic position in the world? What does South Africa count for? If I were convinced that South Africa could maintain the gold basis I would say: "Certainly go back, even irrespective of England." But from my practical knowledge I know we cannot maintain it. Aren't you running a tremendous risk? Supposing we cannot maintain it, you will damage your credit to an enormous extent. Supposing we exported the ten millions of gold coin that we have got, where is South Africa's credit? You then have no gold reserves to protect the credit position.

2208. South Africa is producing a great deal of gold?—Yes, but it is not available to everybody to settle their debts with. It is produced by gold mining companies and it is their gold. It is not the property of others.

2209. South African gold will be sold to the best market, and if South Africa will pay more for part of this gold than any other country will, she can retain it?—If your position is such that you could afford to pay it.

2210. If there are great advantages in stability, in being on the gold standard, you ought to be willing to pay something for them. This country is paying a big price now for keeping a large supply of gold in the vaults of the Reserve Bank which it is not using at all. And you are keeping big balances abroad at a low rate of interest at considerably lower rates than you could get if you would invest them here. Look at the millions of gold in the Reserve Bank here which are not used at all. So far as their present usefulness is concerned, they might as well be buried in the ground?—That's all very well, but look at the millions in the United States.

2211. And what is the United States holding them for? We are doing it to prevent a recurrence of the evils from which the United States and South Africa have already so severely suffered. The United States knows that if it reduces its discount rates and lends out this gold freely, up go the price level and the cost of living, with all the accompanying evils of a period of inflation, all the social and economic troubles incidental thereto. Then when the world demands this gold to restore its gold standard currency, the price level must go down again with all the evils of deflation. It is to avoid these very evils of inflation and subsequent deflation that the United States is willing to hold this excess supply of gold and to take the loss of interest which the holding of it involves. Here, if you would use your gold, by going to a gold basis, you would have stability, whereas if you tie up to sterling, and if sterling should turn around and go down again and then come back, you would be having all these evils that we are trying so much to avoid in the United States, and which we think it worth while to pay to avoid?—Well, I take it the position is still favourable for a further advance in the value of sterling. Your Federal Reserve rate in New York to-day is 3 per cent. That is a factor very strongly in favour of sterling. Your price level in recent months in the United States, particularly I think about June last, did show an upward tendency.

2212. Very slight?—Very slight, but it was upward.

2213. The last Bureau of Labour figure available when I left—12th November—was 149 for September. I saw a newspaper account a few days ago stating that, although it was anticipated that the figure would go up in October, a few commodities went up and a number of others came down; so that there was little change. I believe some of the other United States price index...
numbers have shown a slight increase?—The United States has been wonderfully successful in maintaining stability. The fluctuation in your price levels has been almost infinitely small.

2214. If this country is going back to the gold standard on 1st July next, I assume that it ought to decide very soon and to announce its decision?—That ought to be made known at once.

2215. So that the public should know what to count upon?—The sooner the better.

2216. It must let them know one way or the other very soon. If it does let them know soon, it must take certain chances. If it says: "We are going back to the gold standard 1st July," and if sterling continues to move toward parity as it has been moving, and as we expect and hope it will continue to move, everything will be lovely. If the unexpected should happen and it should turn the other way—and if this country had announced its intention to go back to gold, it must stick to that announcement and be prepared to maintain gold parity when the time comes. That simply means that it must say: "If sterling returns to parity we stay at parity, if sterling remains where it is we remain at parity, and if sterling turns around and declines, we refuse to follow it again, as we did before; in any event we will clinch the present gold parity rate. We are going to refuse to inflate and then go through a subsequent period of deflation"?—If there is any question of breaking away from sterling, my advice in the event of the British pound depreciating would be to adopt another unit of currency in South Africa. Because when we are pound for pound and it is evident to the investor that he can get more pounds, he will take his money out from here. You cannot get away from the fact that that is the position.

2217. What change would you recommend?—I think I would have some other unit, and I would go on to the decimal system.

2218. Something like Peru has?—Peru has the sovereign as the unit. It divides that into 10 parts, which it calls sols. Then it divides each sol into 100 parts, called centavos.

2219. (Dr. Vissering.) Persia has adopted a decimal system also?—We have developed to the extent of many borrowed millions in this country, and it is in pounds, and if an investor sees that his pound is worth more than the 20s. he put in, if he can get 21s. or 22s., the inducement is to take it back. But if he does not see it staring him in the face, if it is in another unit altogether, it is somewhat different. If you are going to achieve the object you have in view, it might be better to have a slightly different unit. It is too early to speak of that. It is a thing that naturally occurs to one in thinking of these things.

2220. (Mr. Middleton.) The bankers recommended a decimal system?—The Standard Bank never did. The National Bank made some recommendations about it. Personally, I would be very sorry to see another unit of currency adopted, as I would like to see South Africa stay on the sterling basis. There is a certain amount of sentiment about it.

2221. (Professor Kemmerer.) The use of the rix-dollar has been suggested. Well, we have had a long talk, and I think we have only touched the fringe of this subject?—So far as I can see, we have only touched the outside edge.

2222. In the testimony that we have already taken, and in some of the information brought to us from other sources, much has been made of the claim that the banks are making too wide a margin between their buying rate and their selling rate for exchange. It has been claimed that this margin is considerably larger now than it was in pre-war times, and that it is considerably larger here than in any other important country of the British Empire, except Australia. We would like your judgment on that criticism?—Well, a very large portion of the exchange is represented by gold exchange. And gold exchange, you may also know, gets the benefit of a preferential rate to the extent of ¼ per cent., so that our margin for a very large bulk of our business is practically ½ per cent.
2223. And the other business is seven-eighths?—The other business is seven-eighths.

2224. The point has also been made that there is no reason why the gold industry should be given preferential rates as compared with other industries?—There is a reason. With the gold mining industry, for instance, some of the transactions run to as much as half a million at a time.

2225. You give it to the gold mining industry whether it is large or small?—All their business is large.

2226. Suppose a man is shipping mealies or wool and has a large amount of sterling to sell, do you give him the same preferential rate that you give the mines?—No.

2227. So it is not a question of the amount of business, it is a question of the industry?—It is a question of the amount and the risk to some extent. A very great part of the mining business goes through on the basis of telegraphic transfer, so that you have actually got the money in London before you pay it out in South Africa, and it involves little labour.

2228. But if a large wool exporter finances his shipments by T.T., do you give him the same preferential rate as for cables?—Yes, in South Africa.

2229. And the other business is seven-eighths?—All their business is large.

2230. That represents the interest?—That represents the interest for that period.

2231. What is the difference between the buying and selling rate of demand?—For amounts of £500 and over our selling rate for demand is 2 13/16ths per cent. discount.

2232. And your buying rate?—Our buying rate is 3 1/16th per cent.

2233. What difference is there?—3 14/16ths, 2 13/16ths; a difference of 1 1/16th per cent.

2234. Why should there be a wider difference between the buying and selling rate on demand and the buying and selling rate of T.T.?—There is no time element in the T.T., and we get the money in London practically the day we pay it out.

2235. In your demand, when you buy you pay your money out to-day and you receive it how soon in the future?—In three weeks.

2236. When you sell you receive your money to-day and pay it out?—Three weeks later.

2237. That greater difference is due to the time element?—Well, to some extent, but not altogether. If you could just buy as much as you sell, you would have the money in hand. Your position would be very much the same; but that is not actually the case. You are continually overlapping, one way or the other. The bank either has an amount in hand or it is out considerably. No week passes by where you absolutely balance the exchange transactions.

2238. How about taking a longer period? Could the bank if it wished to practically balance its operations taking a period of a month?—At certain periods of the year, yes.

2239. At other periods you couldn't?—At other periods you couldn't.

2240. Even by adjusting the rate?—You can't make your adjustments quick enough to get your balance.

2241. Take the difference between the buying and selling T.T. rate, which you say is seven-eighths per cent. for business other than gold. Isn't that a wider margin than you had before the war?—Of course, a much wider margin.

2242. Isn't it a wider margin than in other countries, excepting Australia?—Except Australia, probably.

2243. How do you justify this wider margin than you had before the war and a wider margin than other parts of the Empire have?—Well, to begin with, we are undertaking all the...
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exchange business of customers that they bring along to us. We don't turn aside a man's business. If it is good enough, we take it.

2244. Didn't you before the war?—We did before the war, but then we were on a gold basis. There was no question of taking exchange risks under pre-war conditions.

2245. Was there the difference within the gold points, wasn't there?—Yes, but that was negligible, and as a risk we did not need to pay attention to it.

2246. What was the difference then?—About one-half per cent., allowing for interest as well. You have to bring in the interest factor.

2247. If it is one-half per cent. in either direction, that makes the rate between the gold export point and the gold import point one per cent.?—Yes; pre-war. It is more to-day.

2248. The maximum range possible between the buying and selling rate before the war was 1 per cent., as determined by the gold points. Now you have a continual difference of seven-eighths per cent.?—You had your export and import gold points before the war, but there never could be an occasion where the margin was the full amount of both.

2249. The gold points fixed a maximum range of 1 per cent.?—Suppose you could have the double margin; the exchange position was not likely to alter to the extent that one week you would be importing and the next week you would be exporting. The movement would be comparatively slow, and the slower the movement in the exchange position the slower the movement in the margin.

2250. If you had put your rate up above the gold export point at any time before the war, people could have made their payments by exporting gold. Now, so long as you keep within the gold export point, it pays them to buy from you rather than to export gold, no matter what the rate is?—Yes. That is provided they cannot go outside and get their business at a rate between the bank rate and the gold export rate, which was very often the case.

2251. What is the justification of this present high rate?—The justification is that there is a considerable risk involved.

2252. What is the risk involved?—The risk involved is that you lay down money in London at one rate and you may have to bring it back at a more onerous rate.

2253. You may be able to bring it back at a better rate?—You might; but take the experience of 1920, where money was laid down at par practically—because prior to 1920 the rates were round about par—and an enormous amount of money was brought back at very onerous rates to the banks. You would have to go many years to get compensation for what was lost in bringing back money at that time.

2254. If you take a period of years, you find sometimes that the rate is rising and sometimes that the rate is falling. There is a chance that you may gain and there is a chance that you may lose in bringing back your money. If you keep covered right along, you aren't going to do either. You say you can't keep your purchases and your sales always covered. Then there is the chance that you may gain and a chance that you may lose?—The banks have always been faced with the position that nobody knows what is going to take place at the 30th June next; nobody can forecast that, or what the gold premium is going to be.

2255. The gold premium has pretty nearly disappeared now?—That is the present case. You couldn't have said so six months ago.

2256. Suppose the Government should announce in the course of the next six weeks, either that it was going back positively to gold 1st July or that it was going to tie up definitely with sterling 1st July, then you would know for a certainty what was going to happen. Would you then expect to reduce your margin between the buying and selling rate?—Well, that would be something to take into consideration. Of course, you have still
got your trade fluctuations, whether you go back to gold or not. There is no question of Australia going on to the gold standard, as she is tied to sterling; yet Australia's exchange rates to-day are the same as ours.

2257. You speak of the risk in the rate. There is no risk in a telegraphic transfer, is there?—Of course there is the exchange risk. Take the rates over the last few weeks. Prior to October last, we were laying down funds in London at 2½ per cent., and there was an actual excess. Now the rates have gone to the present point, which is 3½ per cent. We are actually giving more to-day—we are giving a 2½ per cent. rate on the other side also—to sell money in London than we got before the 20th October.

2258. That is the risk in keeping substantial balances there. But if you sell to-day and buy to-day, or if you buy to-day and sell to-day, there is no risk there, is there?—You can't do it.

2259. You are buying and selling every day, aren't you?—We are buying and selling every day. But suppose the mines come along and say: "We require a million of money this week," and the banks say: "We are not going to take exchange to the extent of a million; we will only take a quarter of that." Are the going to shut down the mines because they can't get the money to go on with? They must have the money to carry on their industry.

2260. Is there no one else to sell to them?—No.

2261. What is the Reserve Bank here for?—It is surely not here for that purpose.

2262. Why not?—I should not think so.

2263. Wouldn't it be perfectly proper for the Reserve Bank, in the interests of the public, to come in and take such exchange?—Is it an ordinary competitive bank?

2264. That is a question we are coming to a little later on. You think the Reserve Bank should not come in and provide such a rate if you couldn't do it profitably?—I think so. I don't mind what the Reserve Bank is called upon to do in competition with the commercial banks, provided the commercial banks are not called upon to deposit their reserve balances with them.

2265. There are persons who will buy considerable quantities of exchange outside?—Yes.

2266. If you were on the gold basis, you would not have that difficulty; they could ship the gold and draw against it?—Yes. You asked the justification for the margin? I say we were laying down funds in London at 2½ per cent., two months ago, and to-day we are actually giving more than 2½ per cent. in order to get that money back.

2267. There has been a great change in the gold value of sterling during that time?—That has nothing to do with it. It is the trade position entirely. We are in our wool export season.

2268. As far as the risk is concerned...there is no risk in buying T.T. to-day and selling T.T. to-day. If you buy £100,000 T.T. and sell £100,000 T.T., you make a difference of seven-eighths of 1 per cent.?—You don't do that business to that extent outside the mines. On gold mining business the difference is five-eighths per cent.

2269. Outside of the mines, if you buy, I don't care what sum—suppose you take £10,000—to-day T.T. and sell £10,000 T.T., you make a difference of seven-eighths, and there is no risk involved?—If you can close your transaction both ways. But if you had bought £10,000 on the 20th October at 2½ per cent., you would have been better without that £10,000, because to-day we are giving more than the 2½ per cent. that we got.

2270. I have been living quite a little in countries that had unstable exchanges. For example, I lived in the Philippines quite a long time when they were on the silver basis. The conservative, careful banks dealing in a fluctuating exchange took the position that if they wanted to be conservative bankers and have a safe, sane banking, business they should keep their purchases right along covered by their sales, and if they didn't keep them covered, then they were speculating in exchange. If they bought more
sterling, we'll say, than they sold, if they overbought, they were speculating for a rise in the value of sterling. If they sold more than they bought, for future delivery, they were speculating for a fall in the value of sterling. Now, any bank that keeps a substantial balance abroad in sterling, when it is dealing with a different currency, is to that extent speculating in sterling, overbuying, for it isn't covering its purchases by its sales, is it?—Well, I think you have got to make a good deal of allowance for the conditions in South Africa. Suppose the banks did take up that attitude, it would mean that there would be an enormous amount of exchange which could not be negotiated through the banks, and the excess exchange would be subject to a competitive price outside. Owing to inability to absorb large volumes of exchange, the competitive rates outside would be such as to force the rates to a figure in excess of what is charged by the banks.

2271. They might force it down?—They might force the rate down, but at the moment the demand would be so urgent that the people must get their requirements—they can't afford to wait—the competitive outside rate would certainly immediately reach far beyond what the banks are charging.

2272. If you had certain banks here competing, and if the Reserve Bank also were competing for this exchange business, don't you think the rate would be forced to a narrower margin than seven-eighths of 1 per cent.?—I don't think it would. I think the rates would be considerably more. What outside institution can take the risk involved in letting London balances fluctuate to the extent of millions as the banks do?

2273. You apparently keep large balances there all the time?—We have been trying to keep them down.

2274. On the surface, it looks as if you have been holding very large balances there with the expectation that sterling was going to advance in value, speculating for an advance in sterling?—No; nothing of the kind, because we have always held average balances there. If we had had that expectation, we would have increased those balances. We have actually been trying to keep them down, and we actually got them down over a period of months this year.

2275. There was a long period when you were increasing them?—If we were going entirely for the profit we could make, the plan would be to buy all we could if we were confident sterling was going to parity. We were not laying down money in expectation of making a profit out of it.

2276. Did you expect that sterling would move as rapidly toward parity during 1924 as it has?—No; I don't think anybody did.

2277. If you had had that expectation, would you have reduced those balances?—I would. A banker likes to get what he regards as a proper banking position. I am not looking for a snatch profit: I want to keep our position at what I think is right for the bank and right for the country.

2278. If you had not reduced your balances this past year while this advance in sterling has taken place, you would have made a bigger profit than you have?—That is so. But how do we know what is going to be done on the 30th June next? A banker has to know exactly where he is. He can't afford to take unnecessary risks.

2279. You have not been able to know really? You have just had to guess?—We have had to take what we regarded as the right policy. It was not guess-work. We followed the policy that was the best, no matter what takes place.

2280. What is that policy—the determination of the maximum profit?—The question of profit in a matter of this kind is not considered at all. The question is what is the right and the safe policy for the bank and the country.

2281. You want to make the maximum profit possible consistent with safety, don't you?—I suppose everybody does. But you are not going to bring in risks that a banker is not justified in taking purely for the sake of making a little additional profit.
2282. The point I am trying to get at is this: In deciding how large a balance you are going to keep abroad, or how rapidly you are going to reduce your balance, your criterion is, what is the policy that will give us the maximum profit consistent with safety, with reasonable safety, isn't it?—It has not been the criterion so far.

2283. It has not?—No, it has not.

2284. Then I don't understand what the criterion has been?—You take the policy of the banks during the war. Our war rates in South Africa all through the period were actually less than normal. If we had gone for the profit, we could have made enormous profits.

2285. I am not speaking of the war period when sterling was pegged and natural patriotism was the dominant factor?—I am speaking of the principle.

2286. I am speaking of what has happened during the last five years, when you got away from the war. The war was won. Finance was then no longer primarily a question of national patriotism. We propose that banks as a rule in time of peace are not run for the primary purpose of meeting the demands of national patriotism: at least they are not in most countries. If the reasons for building up large balances in London at one time and for reducing those balances at another time were not to obtain the maximum possible profit for the bank, consistent with reasonable safety, then what was the criterion?—I think we are rather dealing with two separate positions. Up to a certain point of time there was no question of what line South Africa was going to follow. We thought that South Africa was British sterling, and England was British sterling. There was no question of South Africa going on to the gold standard irrespective of England under these conditions: and with surplus funds, where they could always be moved at a trifling cost, the tendency was to leave those funds where they could get a rate of interest on them, and not where they could not be utilized. It was better to have them where you could get some return.

2287. There was no uncertainty as to what South Africa might do with reference to the gold standard between March, 1923, and 1st July, 1925. You knew they would not return to the gold standard before 1st July, 1925, didn't you, so that for two years you have been able to count with certainty that South Africa would not return to the gold basis if sterling didn't?—A banker who, under such conditions, looks only two years ahead isn't a banker. Knowing that he was only permitted until 1925, he would be a very foolish banker who would say: "I don't mind how much money I have in London." It is not getting the money to London, it is getting it back. What disorganization you are going to cause. The banker would get into a state of alarm, and as the time of getting that money back approached he would be putting rates all over the place. A banker ought to try and keep things uniform.

2288. Most of the sterling you have put over there you have put over at a lower price than the present price of sterling in terms of gold?—We run a certain average amount. We might be over the average amount. You can scrap the idea of our making a profit on the London balances. That never entered the heads of the banks. It was never thought of.

2289. According to your statement, there has been no safe and profitable method of investing that money out here, and there has been a reasonably safe and profitable method of investing it over there?—The policy we have been following is that we had a certain amount of funds in London. We didn't want to lose them, and we have been trying to reduce them steadily. If we had been following the other policy, we would not have any loose money in South Africa to-day. We have loose money here. We have about a million and three quarters with the Government now. Besides, we have had half a million surplus balances with the Reserve Bank in addition to $4 millions reserve balances.
Mr. John Paul Gibson.

2290. There isn't much opportunity to put them out here?

There is no opportunity. I wish there were.

2291. Have you anything else to say in regard to this criticism of the wide margin between the buying and selling rates? We are depending on you largely for the defence of that position. Anything you have to say on that we would be very glad to bring into the evidence?—I have told you the justification for the margin; two months ago, we were actually buying and laying down money in London at a lower cost than we are bringing it back at.

2292. I could take other periods and show quite the opposite. It is a question of the time you take?—It may be; that is so.

2293. Another question we are very much interested in is, what is the proper function of the Reserve Bank? In your judgment, what function should the South African Reserve Bank perform?—This question has been thoroughly debated. You have a blue book there that gives you all the information.

2294. A lot of water has gone over the dam since that was written?—Well, with regard to the function a reserve bank should perform, to some extent you must consider the position of the country. Take the United States: there you have about 30,000 banks. Here you have few.

2295. There has been a tendency lately in the United States for the Federal Reserve Bank to go out increasingly in the open market and to exercise its control to an increasing degree by the purchase and sale of bills and securities in the open market. For this there have been two reasons: one, because it seems to be a fairly effective way of controlling the rate, in lieu of making changes in the rediscount rate. The Reserve Bank, if it wants to tighten up the money market, can do so by raising its discount rate or by selling acceptances and securities; if it wants to loosen up the market and make funds more readily available, it can do so by lowering the discount rate or by buying acceptances and securities. Lately the tendency has been to depend to a larger degree than formerly on buying or selling acceptances and securities rather than on lowering or raising the discount rates. The second reason is that the reserve banks can in this way earn enough money to pay their current expenses and overhead charges. Is there any reason why the South African Reserve Bank here should not do the same?—I must say I am rather diffident about talking of the Reserve Bank at all. You cannot speak as freely as in the States. Here you are speaking of a Reserve Bank for a few banks of which only two are large.

2296. This Commission has got to make recommendations as to this matter, because it is tied up with the question of returning to gold. And we must get our information from the people that are familiar with conditions here. You, as the head of the largest bank in South Africa, are presumably more familiar with the conditions here than any one else. We are depending upon you pretty heavily. We are looking for light?—I am only too glad to afford you all the light I possibly can. But the position is a little difficult. I said pretty well all I had to say on this subject before previous Commissions. I think if one accepts the principle of statutory reserve banking, that is, a reserve bank as a bank for other banks; and if it actually holds the cash reserves of the banks, there should not be any determined competition with the commercial banks that are actually supplying the funds to the Reserve Bank. There is no other business in the world where a business man is called upon to put his opponent in possession of funds to trade and compete with.

2297. To what extent do you rediscount with the Reserve Bank?

Not at all.

2298. To what extent do you borrow directly from the Reserve Bank?—We don't borrow, but we would not hesitate to borrow if we require to do so.

2299. You have not rediscounted or borrowed up to the present?

—We have borrowed.
2300. To what extent?—Speaking from memory, to the extent of a quarter of a million. It may have been more.

2301. If the Reserve Bank must live and pay its expenses, and if it were dependent for its profits on the business it did with you, it would have rather a slender fare?—You can't say the bank looks to one customer. Take the Reserve Bank's balance-sheet: their funds out on advances are very considerable. Their percentage of cash reserves to liabilities is much lower than in the United States.

2302. The reserve banks in the States made large profits during the war, but a good many of them are not making overhead expenses at the present time?—They are probably observing the legitimate sphere of reserve banking.

2303. They are dealing to a considerable extent with the public, despite the opposition of the other banks, in order to make their expenses?—There is no question of making expenses in South Africa. They are making their expenses most amply.

2304. I have difficulty in seeing how, if this bank cannot deal with the public, if it must be primarily and entirely a bankers' bank, and if one of the two principal banks in the country neither rediscounts with it nor borrows from it, this bank is going to make its expenses and accomplish very much in forcing equitable and safe rates. Under such conditions the Reserve Bank would seem to be a sort of fifth wheel to a coach?—You don't go to your banker and borrow money from him purely for the pleasure or the advantage of paying interest. Why should we? We have more money than we know what to do with. Why should we go and borrow money?

2305. If this bank is to function in this country in the interests of the public welfare, and if it cannot deal with the existing banks, then it would seem to me that the only option it had, in order to perpetuate itself, is to go out and deal with the public?—That raises the question: Is it right for a bank to draw its funds from other banks and use those funds in competition with the other banks?

2306. If it is in the interests of the general welfare, yes?—Wouldn't it be far better to make other arrangements and say: The other banks needn't deposit their reserves; they are perfectly free to do what they like.

2307. When a banking law is passed, as I understand it, in any country, it lays down certain rules of the game according to which the banking business must be done, and it does so in the interests of the general public. Any bank that does business in that country must play the banking game according to the rules which the authorities have laid down in the interests of the public?—I hope you are not under the impression that I would have any hesitation in borrowing from the Reserve Bank if our position required it. I would not hesitate to do so. The Reserve Bank is there for that purpose. If the time arrives when we have to borrow money, I would not hesitate to do so.

2308. What is your capital?—Our paid-up capital is £2,229,165.

2309. And your reserves are how much?—Our reserves, £2,893,335.

2310. Your total capital and reserve is how much?—Just over £5,100,000.

2311. Your capital and reserves are then something like four to five times those of the Reserve Bank?—Yes.

2312. You are a much larger bank?—Certainly.

2313. With such a large bank as that, the probabilities that you will need to depend very extensively upon a reserve bank would seem to be small. You are the largest bank here?—We were not the largest bank some years ago, according to the published statements.

2314. That you are now?—We are now.
Mr. John Paul Gibson.

2317. We are confronted with this situation: We have found on every side, among the various witnesses we have heard, the criticism that the Reserve Bank is not functioning to any great extent in the country. We have found the claim that the proper function of a reserve bank is to conserve the public interests and to assure to the public not only a reasonable stable money market, but reasonableness of exchange rates, reasonableness of the margin between buying and selling rates, reasonableness of discount rates, and so on. And it is claimed that the Reserve Bank has not been functioning to protect the public in these regards and to assure the public such rates as are reasonable. Then we find, at the same time, a very substantial agitation in this country for a State bank, the claim being that if the Reserve Bank will not come in and protect the public in competition with the other banks, that a State bank should be established to do that thing. It is claimed that there is very little competition between the other banks, because the lion's share of the business is done by your bank and the National Bank, and that these two banks work so closely in harmony that there is very little competition. So we are confronted with the question: Should the Reserve Bank be strengthened and should its functions be widened so that it shall deal with the public in the manner in which the central banks of Europe commonly deal; or should a State bank come in and displace it to perform these functions. A number of witnesses have said they believed that if the Reserve Bank didn't begin to function more actively in the open market and to compete more vigorously with the existing banks in the interests of the general public, the only alternative would be to replace this Reserve Bank by a State bank. We would like your judgment on that question.

—There was one point in your question that rather struck me; that was, you rather directed your question from the point of view that a position exists which wants protection.

2318. The public seems to think so?—Take every country in the world: look at the criticisms that appear in the American Press regarding both the Federal Reserve system and the commercial banks. I have seen more criticism, a severer form of criticism, in the United States Press than I have seen in South Africa or in any other Press—a most scandalous criticism of the banks there.

2319. This is what happened: The banks of America were almost unanimously opposed to the establishment of the Federal Reserve system. The Federal Reserve system was established despite that criticism. The banks of the country were almost unanimously opposed to the Reserve Bank's carrying on any considerable open market operations. But the law was passed authorizing the Reserve Bank to carry on such operations. They are carrying them on now, and apparently to an increasing extent. The question is, should that happen in this country? It was done in the United States because the public demanded it, and it was considered in the interests of the general welfare, despite the fact that it was contrary to the alleged interests of the banks?—I take it, it goes a long way beyond covering expenses.

2320. In the United States there are two arguments emphasized for open market operations. One is to make the reserve banks' discount rates effective, so as to protect the general public, to conserve the money market, maintain the gold standard, and protect the price level from unreasonable variations. The other is to enable the reserve banks to meet their expenses when "the market is outside the bank." I take it that the same arguments apply here: in fact, I have heard both of them applied here. But I think there is nothing more unreasonable than the criticism that appears in the Press regarding the banks. You can take it that for 99 per cent. of it there is very little ground. If you are going to take up this point, wouldn't it be well to make a comparison against Australia?

2321. You may make comparisons with any country, but, after all, we are more concerned primarily with South Africa?—Our rates are very much the same as the Australian rates.
2322. You are making your comparisons with the country which is claimed to have the highest margin of difference between the buying and selling rate of any important country in the Empire, a country which has been criticized vigorously for its large margin between buying and selling rates?—It has a State bank, and yet that margin exists.

2323. I might as well say, why not take Egypt, where the central bank buys and sells at par for the other banks?—I thought they made a slight charge, about one-eighth.

2324. We were told in London it was the same rate?—I may be wrong.

2325. The difference at best would be very slight?—Yes, it would be very slight.

2326. Before the Reserve Bank Act was passed, what cash reserves were you required to keep?—There was no legal requirement against deposits.

2327. Not against your notes?—The laws of the different Provinces applied. Under the Cape Legal Tender Act we deposited Union Government securities.

2328. Did you have to keep any cash reserves at all against notes?—In the Transvaal I think it was 25 per cent.

2329. (Mr. Muldleton.) 33 1/3 per cent.—Yes, 33 1/3 per cent. But that was practically nothing. Our reserves for ordinary business were regarded as note reserves.

2330. (Professor Kemmerer.) If there were no Reserve Bank here, what percentage of cash against your demand liabilities in the form of notes and deposits would you think it was desirable to keep?—In pre-war times I think we ran as high as 14 or 15 per cent.

2331. You are now required to keep only 10 per cent.?—We have to keep till money at every branch in addition to that.

2332. How much till money do you have to keep in addition to the full 10 per cent. with the Reserve Bank?—With our till money we would run up to a total of 12, 13, or 14 per cent.

2333. Then, so far as reserves are concerned, you are no worse off now than you would be without the Reserve Bank. If you had to keep 12 or 13 or 14 per cent. of cash reserves in your vaults, you would not be getting any interest on that. If you keep only 10 per cent. now with the Reserve Bank and 2, 3, or 4 per cent. in your tills, and get no interest on that, you are in the same position. You don't lose anything by the Reserve Bank reserves?—I find I have made a mistake in my answer regarding reserves.

2334. You keep 10 per cent. in the Reserve Bank which you otherwise would keep in your own vaults?—We kept a very strong position in pre-war times. When the inflation with following deflation took place, and we were so unfortunately situated as regards gold movements and smuggling, it was impossible to keep up the reserve position, and it went down considerably below the figures I have given you.

2335. Are you including in that your time deposits?—Yes.

2336. Now you have only to keep 3 per cent. in the Reserve Bank against time deposits?—Yes.

2337. If this 12 or 13 or 14 per cent. in pre-war times was also carried against time deposits as well as demand deposits, your actual cash balances which were not yielding interest are lower now than they would be without the reserve system, so you are gaining now in that respect?—We are practically keeping the same with the Reserve Bank and in till money.

2338. It isn't a very serious handicap, then, for you to be compelled to keep the present legal reserves in the Reserve Bank: you would have the same amount of dead money in any case, or more?—Yes. In pre-war times we kept large reserves.

2339. (Dr. Vistering.) You are always speaking of a reserve bank and that the Reserve Bank ought to be of the character of a bankers' bank. But I suppose the name is not a very happy one. Should you not consider the question from the standpoint that it should be more a central bank? For what use is it to have a
Mr. John Paul Gibson.] banker's bank in a country where there are only two banks of considerable size?—That is the extraordinary position. The idea of a reserve bank is centralization. Under the English system of branch banks the commercial banks are in themselves very highly centralized, so that you are providing a central bank for central banks. In America each bank is a single-office bank or nearly so. There are a few branches, but the great bulk of the American banks are single-office banks. With nearly 30,000 banks you have a very large membership of the reserve banks, but here, although we have a large number of branch offices, the position, so far as the Reserve Bank is concerned, is two member banks.

2340. (Professor Kemmerer.) The Netherlands Bank here is a member?—Yes, but I am talking of the two larger banks, of the banks with large branch systems. The Netherlands Bank has a branch system, but not a very large one. The Reserve Bank, of course, has provided what we have never had before in South Africa. We carried these big reserves in pre-war times as a safety measure because we had no facilities for rediscounting in South Africa. We had our cash, which was our first line of defence. We had, bank, in case of need, could only be realized to a small extent in South Africa, as the stock market is a limited one; when you came to your portfolio of bills it was very little use because there was no opportunity for rediscounting. Now, the establishment of the Reserve Bank gives that opportunity should the need arise. With us the need arises very seldom.

2341. (Dr. Vissering.) Here, where you have only two big banks, the purpose of establishing this reserve bank must have been that it should become more a central bank, don't you think so, like the continental central banks?—The establishing Act is, in fact, word for word in paragraphs the same as for the Federal Reserve Banks of the United States.

2342. I can assure you that the whole organization of the Java Bank and the Netherlands Bank is that it is not to be only a banker's bank, but the central bank of the country; that is, to take care of the whole monetary situation. It is to fight against inflation. That is what it has done, in the same way as the Bank of England did. Moreover, it has to take care of the public interest, and at times come into the open market, although not with the purpose of competing with the other banks?—Is there an obligation on the Java banks to keep reserves with the central bank?

2343. No. But, of course, the banks must do that. They rely a great deal on the central bank, on the Java Bank, or on the Netherlands Bank, as the case may be. A cash reserve of at least 10 per cent. of their money is in their own vaults. In Java, and generally in the Dutch East Indies, it is absolutely necessary, because the distances are so great—Of course, and we do keep larger balances than 10 per cent.

2344. Look at the central banks, for instance, in Europe. It is better to take in this connexion the examples of the French Bank, the German Bank, the Swiss Bank, and the Swedish Bank, rather than the Bank of England, for that is quite a peculiar case. All these banks will at times come into the open market, not with the purpose of competing with the other banks, and, generally speaking, the other banks don't complain that the central bank is competing with them. They are, to a certain extent, in the same field of working. When I was in Java, I had to buy forward a certain amount of sugar bills in order to have means for maintaining the gold exchange policy. So I was buying forward a certain amount of bills that could be settled within the following nine months to the convenience of the seller. The banks argued that to a certain extent we were competing in the open market, but it was not real competition. It was not with the aim of making profits and of taking these profits from the other banks; only so far as it would be necessary to do our duty of controlling the currency of the country and of maintaining parity with other exchanges. Do you understand?—Yes, I follow that.

2345. What is your opinion on this subject?—I think it alters the position very considerably where there is an obligation laid
down for banks to keep large reserve balances with the central bank. The central bank under these conditions should as far as possible be a bankers' bank.

2346. Is that the primary function of a central bank?—I think every one will admit that the primary function of a central bank is to act as a bank for bankers. That is the first thing.

2347. (Professor Kemmerer.) I don't think that would be admitted in the continental countries of Europe. I should think most continental countries would say that the primary function of a central bank is to act as a quasi-public institution and conserve the public interest?—I am talking of a statutory central bank. Don't you think it alters the character of the position if there is a statutory reserve requirement?

2348. I don't see it. Whether the reserve is determined by statute or custom or by the necessities of the case, it seems to me that a central bank's primary function is to conserve the public's interest, and it should do so either by dealing with the other banks or dealing with the public, according as the public interest demands?—Doesn't it serve the public interest best by acting as a bankers' bank?

2349. I think it must do both, if it is to protect the public interest?—You are using the words 'public interest' a great deal. Now, 'public interest' would imply that there are undue profits being made, but there are no undue profits made in South African banking to-day; in fact, it is the other way. There have been undue losses.

2350. Yes, as the result of peculiar conditions due to the reaction after the world war. Similar conditions have existed in nearly every country. We are considering the functioning of this bank in the future and not the functioning of it primarily in a time of world catastrophe. (Dr. Vissering.) What reason could there have been for the Union of South Africa creating a bank that should be only a bankers' bank?—You know the circumstances under which it was created. I think the original intention was very clear. As a matter of fact, didn't Mr. Burton in laying the position before the House make reference to that fact, that it was a bankers' bank?

2351. (Mr. Middleton.) He may have said that incidentally, but you have to take the law as its stands, its express provisions. That is the only authority and the only indication of Parliament's intentions.

2352. (Dr. Vissering.) I cannot find in this Act any intention that it should be only a bankers' bank. This question of competition with the other banks, I think, also involves the question: Has the position been unfairly dealt with? (Professor Kemmerer.) The Reserve Bank up to the present time has done almost nothing in dealing with the public. The question is, should it do so in the future. We are very much concerned with this State bank agitation. That is a point upon which we haven't had your judgment. The claim is that the public attitude is such at the present time that if the Reserve Bank doesn't come out and begin functioning more vigorously and dealing more actively in the open market, a State bank will be forced in to take its place; and that this State bank, if it does come, will deal very vigorously in the open market and compete actively with the other banks?—If a State bank comes in and does all that is expected of it, the Union of South Africa will have a very nice bill to foot. The banking position to-day is that we are only too anxious to give good advances, we are anxious to extend credit; that there are not the applications coming forward. But if a State bank is going to extend credit, quite irrespective of the merit of the risk it is undertaking, what is the end to be? What good is it going to do the country?

2353. No State bank would admit for a minute, and no people agitating for a State bank would admit for a minute, that the State bank would grant credits without reference to the merits of the case?—Then is there any proof that the commercial banks
at the present time are not meeting all the legitimate banking requirements of the country.

2354. The public seem to think so?—They think that everywhere.

2355. The public seem to think that the facts, namely, the circumstance that there are only two large banks here and that they are not very actively competing, represent a situation in which the banks are not adequately protected and that they need another bank in order to give them adequate competition. Whether that is true or not, many people seem to think it is true, and they seem to believe that the Reserve Bank ought to come in and actively compete. If it does not actively compete, there seems to be considerable probability of increasing agitation for a State bank?—You have the same outcry everywhere. Take the position in the States. It has been considered necessary elsewhere for chairmen of banks to make reference to the fact that such agitation was unjustified. It is simply a cry for unjustifiable credit.

2356. I have seen the criticism in England that the other banks in England practically have to keep the bulk of their reserve money in the Bank of England and that the Bank of England deals in the open market, and, therefore, competes with the other banks, using their funds for the purpose. Yet the bank continues to do that, and that criticism does not seem to make very much headway?—You mean the criticism of the Bank of England?

2357. Yes?—I was referring to the criticism of the commercial banks in England and elsewhere. There has been a great deal of criticism of the commercial banks. At the annual meetings the chairmen have actually gone out of their way to make references to that criticism, to say it was not justified. You have the same thing in the United States and practically in every country. It is not peculiar to South Africa by any means. It is no more justified in South Africa than it is in the States or England or anywhere else.

2358. The banking systems in a number of countries are being changed from time to time?—Where are you going to deal in the open market in South Africa?

2359. (Dr. Vistering.) We had to give a promise to the Government before the war that the Netherlands Bank should undertake the duty, as far as it would be possible for her, of protecting the public interests. They wanted to put that into law. The Government was satisfied with the promise from our side because there might be times that it would be impossible to execute such a scheme?—I think there is a wider outlook than has been taken of this matter. Take a bank like ourselves, or the National Bank, extended all over the country with branch systems. You are saying that there is not enough competition. If there is not enough competition, there are certainly no undue profits being made.

2360. (Professor Kemmerer.) Weren't you making pretty good profits before the war?—We never made any excessive profits.

2361. About what profits were you making on your actual invested capital and reserves before the war?—I should say on our capital and reserves not more than 6 per cent. What I was going to say was this: If, by reason of competition by a State bank, banking profits were to be cut down, it would mean that banking representation is also going to be cut down in this country very considerably. There are very many branches here to-day just on the turn; in fact, a number could be closed with profit to the bank. It will result in the curtailment in the extension to the smaller towns of banking facilities. You cannot continue these places at a loss.

2362. (Dr. Vistering.) Are you not of opinion that it is extremely convenient to the private banks in countries like France, Belgium, Sweden, Switzerland, Holland, that they are sure that the public duty of maintaining rates of exchange is in the hands of the central bank; and also that in the interior of
the country the discount rate is levied by the central bank? Don't you think it is very convenient to the banks on the Continent?—Don't you think a question like that is to some extent wrapped up in the stage of development of the country? If you have a highly developed country it makes a very great difference.

2363. But the Philippines, and Java, they are also new countries?—I think the stage of the development of the country makes a very considerable difference to the whole position.

2364. I have had a very hard fight on the same question with the Netherlands Trading Company. When I commenced duty as president of the Java Bank, they also argued that we ought to remain out of the market, that we ought not to come into the market and compete. Afterwards it proved to be of very great assistance to them, during the war, that the Java Bank was so powerful that she could maintain rates of exchange, as the private banks had been supported by the Java Bank?—Yes.

2365. (Professor Kemmerer.) We recently established in the Republic of Colombia the Bank of the Republic, in which the banks were practically required to keep their reserves and to invest a certain percentage of their capital surplus in the stock of the bank. The bulk of the banks came in. Colombia is a new country just being developed, about the size of South Africa, with about the population of South Africa, and with a very large mining industry. The Bank of the Republic is in the open market and has very liberal powers of dealing in the open market?—Perhaps I should supplement what I was saying just now about the question of extending banking facilities over a widely extended country such as South Africa. Now the cost of running these branch systems is very high indeed, and periodically we go through our branches to see whether they are justified. Following our last revision, we determined to close down a number of branches. Immediately that decision was known we had deputations from nearly every point where we had decided to close to make representations that the withdrawal of the branches would be very harmful both to the village or town and to the district. And in more than one case these people said they were so anxious to maintain these branch banks that not only were they prepared to pay the rates, but prepared to pay any reasonable increase in the rates in order to make the branch pay. If you bring in your State bank and cut into banking profits, it comes to this, you will close down a lot of the banking facilities which the country now enjoys. They must be withdrawn. You can't run branches at heavy loss.

2366. I don't suppose it is absolutely necessary that you should have the same rates of exchange and the same discount rates at your minor branches that you have at your offices in the principal cities. If the overhead is more, if the expenses are more, it would be perfectly possible, as is done in some other countries, to have different rates?—That is the very justification for the rates you have in South Africa. If you are going to bring everything down to a dead level, you ought to have the same rates here as you have, say, in the States. It is because we are such a small—economically—and isolated country that at our present stage of development our rates are very fair.

2367. I am not maintaining at all that you should have the same rates here as in the United States and in England. I say it is perfectly possible in order to maintain branches in out-of-the-way places to have substantially higher rates at those places than you have in cities like Johannesburg and Capetown, and that the competition of another bank might be perfectly wholesome in those large cities while not in smaller places. And it is possibly also true that your rates might well be relatively too high in those large places, and yet not high enough in the smaller places. And your overhead expenses are bigger and your business small?—I see your point. But, as I say, it involves that further point, that our rates in South Africa, having regard to the development stage which we have reached here, are quite favourable rates. There is no need to-day to reduce these rates by competition. The only
result in doing so will be to curtail banking facilities, and the extension of banking facilities is, I think, one of the most helpful factors in developing a country.

2368. In most countries with which I am familiar in which they have unstable exchanges with the other countries with which they deal, there exists the policy of making forward contracts in exchange; that is, an exporter whose business is exporting goods who does not know much about exchange operations, and who does not wish to incur any risks in connexion with exchange, goes to his bank in advance of the time the goods are to be exported, and says: "I am going to have bills to such and such an amount in the next two or three months, and I would like to make a contract with you as to the rate at which you will buy these bills." The bank fixes a forward rate and the bills are presented to the bank in the proper time and taken. The exporter then knows when he is purchasing his goods and providing for their marketing abroad, not only how much he is going to pay for the goods and how much he is going to sell them for, but also the rate of exchange which he is going to realize upon the proceeds of the sale of his bills. The importer likewise does not want to run the risk of the fluctuating exchange. He goes to the bank one, two, three, or four months in advance and says: "I will need to purchase such and such drafts in the future, and I would like to know at what rate you will agree to sell me these drafts." The bank makes him a rate. He knows what to count upon. He has eliminated the risks of exchange fluctuations. The banker, on the other hand, hedges; in other words, he balances his forward contracts for the sale of drafts with his forward contracts for the purchase of bills, and makes his profit by means of a small margin on the transaction. In that way the evils that sometimes accrue from a fluctuating exchange are largely eliminated for all the parties concerned. We would like to know to what extent that is done in this country?—It is not done at all.

2369. (Dr. Vissering.) Not at all?—Yes.

2370. In Java it is done to a very large extent. (Professor Kemmerer.) It is done in Singapore, in Hong-Kong, in the Philippines, in nearly every place that I have been in until I came here. It has been rather a surprise to us that it isn’t being done here. Is there any reason why it should not be done here?—In all my experience there has only been one transaction offered to us. I only know of one case. There are very good reasons why such business does not exist. Suppose you entered into forward contracts, you could never cover yourself the other way.

2371. Certainly, in the long run, the country must import as much as it exports?—The business does not exist to-day. If you bought in advance you would want to sell in advance.

2372. Certainly, you must?—If you did buy, you could not arrange the sale, because the business is not offering. It has never been offered. From the point of view of the banker, it is a very much more satisfactory way to work. But we can’t do it in South Africa. It is not in the interests of South Africa that its business should be done on a purely covered basis.

2373. If you are buying continually more bills than you are selling, you are certainly building up increasing balances abroad. You don’t export more than you import?—There must be a balance coming in somewhere. But we do export far more than we import at times.

2374. Then if you would make your forward contracts cover a wide enough period to bridge over the crests of those waves, you would balance your account and be protected?—But what is the use of forward contracts to us when we know that when the business comes along we have to take it? We have to take the whole business. It is not a question of taking a particular transaction: it is a case of taking all the business that comes along. We could never turn round to a client in South Africa and say: “I have balanced my exchange. Your business doesn’t suit me. Take it elsewhere.”
2375. You couldn't?—No, we couldn't. There is nowhere else to take it. I refer to big business.

2376. That is a pretty strong argument for widening the functions of the Reserve Bank, so that there will be another place to take it?—The same would apply to the Reserve Bank. It would simplify the exchange position very considerably if we could simply say: 'We have covered our exchange operations and it doesn't suit us to accept further business.' We have never done that in South Africa, and it would not be to the advantage of South Africa that it should be done. What we would shut out would have to find its market elsewhere and, I believe, a market at a much higher rate.

2377. You have made no effort to introduce forward contracts in foreign exchange?—I have made no effort because there has been no demand for it—with the exception of the one case I have referred to.

MONDAY, 22ND DECEMBER, 1924.

Mr. Ferdinand Paulus van Gass (examined).

2378. (Professor Kemmerer.) Will you please tell us your present position and what experience or training you have had in the field of banking or finance?—I am a superannuated bank manager. I have had thirty-seven years' experience in banking.

2379. Here in South Africa?—Yes, entirely.

2380. What bank were you connected with?—The Standard Bank.

2381. And in what places did you act?—You mean as manager?

2382. In what places in South Africa have you had experience in the banking business?—Adelaide, Cradock, Somerset East, Johannesburg, Pretoria, Lydenburg, Pilgrims Rest, Barberton, Pietermaritzburg, and Graaff-Reinet.

2383. You are, then, familiar with banking conditions in various parts of the country?—Yes.

2384. You know, I believe, that the primary question that has been referred by the Government to this Commission is the question of the advisability or inadvisability of the Union returning to the gold standard 1st July next?—Yes.

2385. Regardless of what action may be taken by Great Britain?—Yes.

2386. We would like to have your judgment on that question, and the reasons for that judgment?—I should be in favour of returning to the gold standard, for this reason, that we are dependent to a very large extent on our gold mines. Gold has already been demonetized to a material extent. If we continue with the paper currency, the working costs of our mines are bound to increase, with the result that, sooner or later, the poorer mines are bound to close; even supposing gold is not demonetized, which we do not expect, of course. But if we continue on the paper basis very much longer, prices are bound to go up. As I stated in my letter, the costs of mining have been very much reduced, but this is due to abnormal circumstances; due to the fact that we have had such a very serious depression, which threw large quantities of goods on the market, and which had to be sold almost regardless of cost. And, of course, the mines were able to buy these goods at very much lower prices than they would normally have been able to.

2387. How about wages; has there been a considerable amount of unemployment here, so that wages may be considered also to be abnormally low?—Yes, there has been and is very serious unemployment here. I believe the percentage is something like 10, including the poor whites: they are practically all unemployed, pretty nearly 10 per cent. of the white population, I mean.

2388. You speak of the desirability of having an increased use of gold for monetary purposes, an increased demand for your principal product here. South Africa itself, even if it were on a gold standard, would not use very much gold, would it?—No.
2389. South Africa at present has large quantities of gold tied up in reserves against the gold certificates and in the Reserve Bank?—Yes.

2390. Probably about as much gold as it would actually need if it were back to the gold standard?—Yes.

2391. In that case South Africa's return to the gold standard would not increase very materially the demand for gold, would it? You already have that gold tied up, and are not actively using it?—Yes, that is the position. Of course, we don't know how much gold would be hoarded all over the country if people, instead of having paper, had gold.

2392. Isn't it possible that, while you have been on a paper-money basis, and have been having all the uncertainties of a fluctuating exchange, a great many people may have hoarded substantial quantities of gold to be on the safe side, and that if this country would return to the gold basis and money, that is, if paper should again become convertible into gold, the reason for this hoarding would be discontinued, and that they might, as a result, throw on the market this gold taken from hoards? That might depreciate the value of gold very slightly?—I cannot see how it can depreciate the value of gold.

2393. At any rate, the influence of South Africa in increasing the demand for gold, if it goes on to the gold basis, would be a mere bagatelle in considering the world's demand for gold, would it not?—Yes. You must not overlook the fact that we have not only in the Union, but outside, a very large native population, who, whenever possible, take gold with them. They are working on the mines right from Central Africa. When we were on a gold basis, they would take gold away with them to their own country. At present, I don't know how they manage, but I believe, when the Portuguese natives go with our notes, these notes are exchanged for Portuguese notes. That would make a very material difference.

2394. I was talking some days ago with a Swaziland magistrate, and he told me that there are in circulation up there very substantial quantities of gold; that the natives prefer gold to paper so much that the employers try to pay them part of their wages in gold?—Yes.

2395. Not, perhaps, as large a proportion as the natives would like to have, but a substantial proportion. So there are parts of South Africa, even at the present time, where gold is circulated?—Yes; you will find that chiefly in the native territories, and more particularly out of the Union.

2396. Just how, then, will the return of South Africa to the gold standard increase the world's demand for gold on any substantial scale?—No; it is not going to help the world's demand at all, at least very little.

2397. Do you think the example of South Africa would have any effect in bringing other countries back to the gold standard?—That is what I am hoping. As I say, we are dependent on such a large extent on our gold mines. It seems almost monstrous that the greatest gold-producing country in the world should have a paper currency. It is like a merchant decrying his own wares. The question is whether that, after all, has not a moral effect. We are, of course, such a small people, that you might almost laugh at the idea of a moral effect.

2398. People might say that if South Africa, the greatest gold-producing country in the world, cannot maintain itself on a gold standard, how can we expect to do so?—Precisely, that is what I mean. And, of course, the great danger for South Africa is that if the gold standard is not resumed pretty generally, that our mines may have to close. And what is going to become of us then? That, as a matter of fact, is the main point I wish to emphasize.

2399. The only argument in favour of South Africa's going back to the gold standard, from that point of view, is the argument of the example it would set to the rest of the world, because your influence here on the demand for gold would be very small?—No; that is not so. The chief points are that if we were on a gold basis, we could buy in other countries much cheaper than we can at present and help to keep our mines going.
2400. Why? If you want to buy in any country in the world today, you can pay for what you buy through the mediation of sterling. If you want to buy in the United States, for example, you can buy New York exchange through buying sterling at the South Africa-sterling rate, and dollars at the London-New York rate. If you want to buy in Holland you can buy guilders, either directly through the Netherlands Bank, or through buying sterling, and then with sterling in London buying guilders. Why can't you buy in any country now?—You can buy in any country, but you cannot pay in gold without special permission from our Government. That is really the position. You are not free.

2401. But you can export gold to the London market, or to India, and you can sell that gold at the market rate, and out of the proceeds that you get from that gold you can buy exchange at the current rates in London on any country in the world, can you not?—Yes, you can.

2402. (Mr. Middleton.) I don't know that you can sell gold in London. The export is subject to a licence and other restrictions.

2403. (Professor Kemmerer.) You could sell bars in the London market at the market rate?—But you cannot export it from London without a licence.

2404. But you can export to London, and then you can buy dollars, guilders, francs, etc., with the sterling proceeds of your gold exports?—Then you would have to be subject again to the London exchange.

2405. The great bulk of South Africa's trade is with Great Britain?—Yes.

2406. You export chiefly to Great Britain and buy mostly from Great Britain, and under the policy of Imperial preference there are preferential tariffs granted in order to encourage that sort of trade?—Yes.

2407. Is it your idea that it would be better for South Africa if she would deal more extensively with other markets?—Well, no. I should not say that, unless other markets are cheaper. If the other markets are cheaper, of course, then it would be to our advantage.

2408. If the other markets are cheaper, do you think she would now be handicapped by exchange obstacles in dealing with those other markets?—Yes, she would be.

2409. Why?—Because we would be subject to the English exchange.

2410. Because you could not buy directly? You would have to buy through London?—Precisely, we would have to settle through London.

2411. You would have a double exchange instead of a single exchange?—Yes.

2412. You get caught on the commissions, delays, and other expenses incidental to a roundabout exchange?—Yes.

2413. Do you think if this country would return to the gold basis, with a free open market for gold, that there would be any danger that it would be unduly drained of its gold supply?—I don't think so. We would not, for instance, give anything away for nothing. We have, say, a million in gold here. It is taken away. People take it away for some reason or other. They are not going to take away their money and take it to England or Germany or anywhere else without getting something in return for it.

2414. You can go farther than that, can you not? Not only can you refuse to send it out unless you get something for it, but you can refuse unless you can get, according to your standards, an adequate profit on the transaction. You would not ship out gold unless gold were more valuable abroad than here by enough to pay transportation and other charges and yield a reasonable profit—is that true?—Yes.

2415. You would only ship gold when you expected to make a profit?—Yes.
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2416. And the more gold went out the less gold would be available here, and the less gold available here, the more valuable gold would be here?—Yes.

2417. If gold specie tended to go out in undue quantities, it would soon become so valuable here that it would not pay you to send out any more?—Yes.

2418. You would either have to curtail the importation of goods or to ship other goods to pay for the things you were importing—it that your idea?—Yes.

2419. You believe, then, that South Africa, now being practically at a parity with gold—in fact, at to-day's rate, if you take the bank's buying rate, you are a little bit above parity—should clinch that gold parity and remain at parity regardless of what happens to sterling?—I think so.

2420. You think there would be no difficulty of maintaining the gold standard on that basis?—I should not say so. Supposing my opinions are quite wrong. We are at the fountain-head: it would be easy enough for us to get a supply of gold if we find that we are wrong.

2421. No country can keep you from getting gold, because you tap it at the source?—Precisely. That is not the position with other countries. Therefore, other countries may have to proceed very cautiously. We can be very much more reckless, because, supposing anything does go wrong, we are at the fountain-head and can tap as much gold as we want. Practically, a two-months' supply of gold would be all we need.

2422. The annual production of gold in South Africa would be several times more than the total amount of gold needed in South Africa to maintain the gold standard, would it not?—Yes, the monthly production is over 3 millions.

2423. (Mr. Middleton.) About 3½ millions?—And the total amount of gold now held by the Treasury is, I think, about 10 millions.

2424. That is more than is needed under our new reserve system?—Yes.

2425. (Professor Kemmerer.) So that three months' production here would be enough to provide for the whole requirements?—Exactly. Even supposing we do make a mistake, it is easy enough to stop it again, but I don't see how there possibly can be a mistake.

2426. The sovereign in England and the sovereign here are the same thing, are they not?—Yes.

2427. Is the pound sterling in England and the pound South African the same thing?—You mean the paper pound?

2428. Yes?—Our paper pound is worth more than the English paper pound.

2429. With the exchange rate, we'll say, at 3½ per cent. discount, it means that £96½ here will buy £100 over there?—Yes.

2430. And with a price level, we'll say, here, represented by an index number of 133 as compared with 1913, and a price level there represented by 167 as compared with 1913, your pound here would seem to have considerably more purchasing power over commodities than has the pound in England?—Yes.

2431. A greater purchasing power over commodities in the proportion of, we'll say, roughly speaking, 167 to 133. Is that true?—Yes.

2432. When you speak of a pound sterling and a pound South African, you are really speaking of quite different things?—Yes. The misfortune is that they have the same name.

2433. They have the same name and, therefore, the two different things are confused?—Precisely.

2434. Do you think there would be any advantage in the line of avoiding this confusion if South Africa should in some way change either the size of its monetary unit, or its name, or its divisions, say, placing it on a decimal system, in such a way as to bring to the public's mind the fact that the pound sterling and the South African pound, although they have the same name, are actually different things, and that if the price level is lower here
than it is in England, it is due to the fact that prices are expressed in terms of a different monetary unit, a more valuable monetary unit here than in Great Britain?—That might have some advantage; that is, assuming that we both continue on a paper basis.

2435. Suppose you went to a gold basis and England continued on a paper basis, you would still have confusion?—Yes.

2436. If you should return to the gold basis, and England should stay on a paper basis, and if it took £100 sterling to be the equivalent of £90 South African, then the people that were shipping goods to England and receiving 10 per cent. less pounds here than the number they received over there, might feel they were being taken advantage of, whereas if there was a different name, or different divisions, they would realize more fully that, while they were getting less pounds, they were getting a different and more valuable pound and were getting the equivalent just the same?—Yes, it might have that effect. Of course, the question is whether we cannot educate the community to understand that our pound is different from the English pound.

2437. This Commission has found from experience that there are many bankers and business men here who seem to reason continually that the two pounds are the same thing, and that it is a net loss whenever the South African pound goes to a discount, or, in other words, is quoted on the exchanges as more valuable than the sterling pound. If bankers and men whose business it is to deal in these things have this confusion and misunderstanding it would seem to be somewhat difficult to educate the public to avoid it?—That is so. And it would be more difficult still to change your monetary system. Supposing we were to go over to the decimal system: you would create still more confusion in the country, not only amongst the whites, but more particularly amongst the natives.

2438. Suppose you made a division like this, 100 cents or whatever you might call it equal 1 florin, 10 florins equal £1—I just take that arbitrarily—you would have a little difference in your system, which might emphasize, or make it clear that yours was a different unit; or is it possible that as long as you keep to the pound you would still have that confusion?—There is always a possibility of creating confusion in the minds of the people if changes are introduced.

2439. And that is the serious thing?—That is the serious thing. Of course, we would all like to go to the decimal system, if possible. But the job would be to get over the difficulty of change; that is the trouble at present.

2440. One question that is coming before this Commission frequently is the question as to what preparations, if any, should be made for returning to the gold basis 1st July next, if it should be decided to return at that time. Do you think, for example, that if it should be decided to return at that time, the Government should make an announcement at an early rate that it was intending to return to the gold basis at that time, so that the public would know what to be prepared for, and would be in a position to get themselves ready for the return to gold?—I certainly think you should make the announcement as soon as possible either way, so that the public might know what to expect.

2441. Do you see the necessity of any special preparation being made to return to the gold basis otherwise than by making this announcement?—I can’t see much necessity for it. I don’t know what especial preparations can be made.

2442. The banks have very substantial cash reserves now, and large balances abroad. The Reserve Bank is in operation, and in a position to raise its discount rate if it is necessary at any time to influence an outflow of gold? The new mint is ready to coin gold?—The only thing is whether the Government should not make an attempt to meet the banks. They have, I believe, very heavy balances in London, which, if we return to the gold standard here, would mean a very serious loss to them.

2443. They have been accumulating those balances for some time, have they not?—Yes.
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2444. And the gold value of those balances to-day is much higher than it has been at any time for many months, is it not?—Yes, that is true.

2445. So that to the extent that they have accumulated those balances during the last year they have realized an increase in the gold value already. Sterling is worth about 10 per cent. more in terms of gold than it was a year ago?—That may be.

2446. They have been making a profit already. Should the Government say: "Here, we are going to help you make an additional profit"? When the banks piled up big balances abroad, they did it knowing that the provision was on the statute books here that you were to return to the gold standard 1st July next. They bought sterling exchange, which was a fluctuating exchange, without covering by corresponding sales. To the extent they did that they were speculating for an advance in the gold value of sterling. Sterling did advance, and they made a very nice profit, measured in gold values, to the extent that they bought when sterling had low gold values, and have sold it or still hold it at high gold values. The Government is certainly under no obligation to say: "We are under obligation to assure you 3 or 4 per cent. more profit on it"—The banks have been extremely liberal in treating the public in their exchange rates, and they were in a measure bound to finance the exports of the country. There is no doubt about that. If you compare our rates with the Australian rates, you will find that the Australian rates are very much more favourable to the public.

2447. I have been looking over some of the discussions on that subject at the Imperial Economic Conference and elsewhere, and I find the statement made repeatedly that the margins between buying and selling rates in Australia have been the largest of any important country in the Empire, and that South African rates have been the next largest. So when you are comparing with Australia, you are comparing South Africa with the country in which the banks are exacting the widest margin, and a country in which there has been many criticisms of the banks on the ground of excessive rates?—Yes.

2448. If you would compare with Canada or compare with Egypt or with many other places, you would get a very different story. You would find that South Africa's margin between the buying and selling rate was very much larger than the margin in those countries?—You see, the Canadian position is quite different to our own. You have the States there, and, altogether, you have the dollar basis in Canada. But Australia and New Zealand are the only countries that can reasonably be compared with ourselves.

2449. Why not India? India's difference between buying and selling rates, I understand, is lower than yours?—I don't really know. I haven't followed India.

2450. In Egypt the National Bank buys and sells, I understand, at parity plus a small commission. According to computations made by Mr. John F. Darling, a well-known London banker, in an address which he delivered to the Manchester Association of Importers and Exporters in December, 1922,* the Australian, New Zealand, and South African banks combine and issue a tariff at which they are prepared to buy and sell exchange, and this tariff is so high that, when reckoned in terms of interest, the difference between the tariff rate and the normal rate of interest constitutes in effect a levy upon the whole of their import and export trade. Mr. Darling stated that the banks exacted for the London-Australia and New Zealand business in 1922 as much as 16½ per cent. per annum, and in 1921 as much as 20 per cent. per annum, while for the Australia, New Zealand-London business the rates charged equalled 10 and 12 per cent. per annum. For South Africa Mr. Darling gave the rates as London-South Africa 18½ per cent. per annum and South Africa-London 12½ per cent. per annum. That is a pretty good return?—Yes. I am not well posted in such matters. I have been out of business for quite a number of years.

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2451. We are interested in connexion with this question of preparation for the return to the gold standard, and of the efficient functioning of your currency and banking system on a gold basis, also as to what should be the proper functions of the Reserve Bank. Have you any opinion to express on this subject?—Well, if it was to be a reserve bank, simply as it is now, I don't see what change can be introduced.

2452. So far, the Reserve Bank has had practically no dealings with the public. It has only dealt with the other banks? The Standard Bank has been in such a strong position that it has not needed to call upon the Reserve Bank hardly at all. The Netherlands Bank has called upon it more, but also on a very small scale. So that the only bank that has called upon it at all heavily has been the National Bank, and I understand there is considerable prospect that as time goes on the National Bank will need to call upon it less and less?—Yes.

2453. In a country, therefore, where there are only two commercial banks of importance, and where the biggest bank does not need the help of the Reserve Bank, how is the Reserve Bank going to function if it can only deal with the banks? How can it earn enough to pay its expenses?—Quite so. It has been stated that the Reserve Bank was established on the model of the American Reserve Bank Act.

2454. The American Reserve Bank does deal with the public to a considerable extent, and in America we have 30,000 odd banks. Here, you only have two or three?—They appear to have established the Bank on the American system, overlooking the fact that banking in South Africa is quite different from banking in America.

2455. If the Reserve Bank cannot function to any extent as a bankers' bank, except in times of emergency, and as a bankers' bank cannot earn enough to pay its expenses in normal times, it would seem that it would either have to come out and more actively deal with the public, in order, perhaps, to protect the currency, guarantee the public better rates, and in order to earn its own expenses, or it would have to close its doors, and give place, perhaps, to a State bank, which has been agitated for for some time to do that sort of thing?—You might possibly get the Reserve Bank to extend its operations, say, to public bodies: municipalities and bodies of that kind.

2456. A reserve bank whose liabilities are primarily in the form of bank-notes, which are payable on demand, and of the deposited reserves of other banks which are payable on demand, can hardly be expected to tie up its assets to any large extent in municipal securities, which are so often non-liquid?—Yes, that is, of course, a very important point.

2457. One of the first requirements of a reserve bank in every country I know of is to keep its assets highly liquid. It is supposed to keep them primarily in the form of gold or short-time self-liquidating commercial paper, possibly with a small amount of short-time Government securities in addition that have a wide and ready market?—Yes, that is important.

2458. So it is argued that the Reserve Bank's only alternative is to come out and more actively operate in the open market, even at the expense of, perhaps, competing with the other banks, although its object would not be competition. Which is preferable—for the Reserve Bank to operate more actively in the open market or for it to continue to refrain from any open market operations, and by doing so, probably encourage public agitation for a State bank?—I really don't know what to say. I am not very much in favour of a State bank.

2459. If the Reserve Bank should be forced to go out of business because the public became dissatisfied with it on the ground that it was not actively operating in the market and providing competition to the extent as to guarantee that the public considered to be reasonable rates, wouldn't it be highly probable that the public would demand a substitute in the form of a State bank that would compete in that way?—It is quite possible.
If that is true you may have the alternative of strengthening the Reserve Bank and, perhaps, of giving it wider powers, or of permitting it to be substituted by a State bank which would probably compete vigorously with the other banks. Do you think that is probable?—That is probable. The public would clamour, at least might clamour, for a thing of that kind, and probably in ignorance. They would not know how the banks are run, and they don’t know the dangers there are.

Between those two things, broadening the function of the Reserve Bank, or at least causing it to operate more actively in the open market in competition with the commercial banks, or replacing it by a State bank, which do you think is preferable?—I would not be prepared to express an opinion, at least not off-hand. It requires consideration.

Do you see any particular danger in a State bank?—No; but I must confess that I really don’t know very much about it, excepting, of course, that the Australian State bank seems to have been a failure.

Has it been a failure?—I understand so.

In what way? That is news to me. I thought it was getting along pretty well now?—Well, they have practically decided to convert it into a central bank. It went along very well for a long time. They had an exceptional man as manager, I believe, and during the time that he was at the head of affairs, things went all right. But gradually things seem to have changed, and they quite recently decided to change the State bank into a central bank. So far as I understand, the State bank, even in Australia, never extended. They only had branches in the bigger cities. They did not extend into the country such as would be expected from a State bank in this country.

(Mr. Middleton.) It used the post offices throughout the country as agents?—Oh, I see.

(Professor Kemmerer.) I didn’t know that about Australia. Of course, we have in some countries successful State banks; for example, one of the most successful little banks in the western hemisphere is the Bank of Uruguay, which is a State bank?—I was not aware of that.

Do you understand that this new central bank that they are proposing in Australia is to be a purely private institution, or will it be a semi-State bank, partially controlled by the State?—I understand it will be a semi-State bank, but I have no definite information on the point.

Those are the main questions we wish to put to you. Are there any other points you would like to bring forward?—One point I saw in the questionnaire, the influence on the Union finances of returning to the gold standard. That, I think, is an important point. Now, on the question of import duties.

Your import duties would be collected in South African pounds, would they not, that is, the money of the country? If sterling should depreciate so that £20 South African was the equivalent of £100 sterling, and prices went down proportionately here because the unit was more valuable, a 10 per cent. duty on £20 would call for £9, and £9 would have the same value in purchasing power that £10 sterling would have. So, presumably, while you get less pounds, your pounds would be more valuable. As soon as the adjustment of prices here had been completely effected, there would be no difference. Of course, to the extent that South Africa owes money to her own citizens, the domestic debt, she might be paying them in a really more valuable pound than if she followed sterling and sterling went down; but, on the other hand, the people of South Africa would be getting a more valuable pound?—Yes.

And taxes presumably would not decline as rapidly as the value of the pound went up. At any rate, it is not very good politics, is it, for a country, in order to pay its debts cheaply, to depreciate its monetary unit?—Of course not.
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2471. How, then, would South Africa suffer by returning to the gold standard?—I quite overlooked that point. Really, we would not suffer. I was thinking the Government would suffer in the collection of Income Tax.

2472. Suppose she had sterling to pay, she would buy for £90 here, say, £100 sterling?—Yes. The mercantile community have been getting the premium on payments made in England, so that it would not affect them at all.

TUESDAY, 23RD DECEMBER, 1924.

Mr. Maurice George Epstein (examined).

2473. (Professor Kemmerer.) What is your present position?—Assistant tutor at the Witwatersrand University and at present acting as Secretary to the Cost of Living Commission to the Ministry of Labour.

2474. Tutor in economic theory?—Yes, economic theory.

2475. What is the character of this present investigation you are making?—This is departmental work. I could not talk of that at all. I am just starting on that.

2476. Do what particular phase of this problem that is before us do you wish to give evidence?—I think mostly on the theoretical side.

2477. On the theoretical side of the entire question or on the bearing of the question on wages and the cost of living?—Bearing mostly on the attitude of labour, from the labour point of view.

2478. You understand that the problem immediately before this Commission is the question of the advisability of returning to an effective gold standard 1st July next, regardless of what action may be taken by Great Britain?—Yes.

2479. One important phase of this problem is the effect any action that may be taken by the Union may have upon labour, upon wages?—Yes.

2480. If you have any opinions on that subject, we would be very glad to have you present them?—Shall we take it in rotation, as with the questionnaire? I would not like to tie myself down to the questionnaire.

2481. We are trying to obtain most people's judgments on the phases of the question with which they are primarily concerned. Are you in favour of returning to the gold standard 1st July, 1925, without any restrictions?—I am in favour, with restrictions.

2482. What sort of restrictions do you think should be imposed?—A guarantee at any rate should be obtained. Of course, a guarantee may mean nothing at all really.

2483. What sort of guarantee have you in mind?—A guarantee that there will be no movements behind the curtain.

2484. Just what do you mean by "movements behind the curtain"?—We know that there are always factors and interests whose influence must have a bearing on any action taken, and without this knowledge being made public the investigator is always at a disadvantage, especially when these influences are considerable. South Africa, after all, is a gold-producing country. Gold is a commodity here. We produce it as we produce everything else. From that point of view, it is to our interest to maintain a good price for gold; from that point of view that we are interested in the gold price for the sake of our industry. At the same time this country is suffering a great deal from lack of credits, that is, new industries. This being a young country, our people are crying out for more latitude, more elasticity.

2485. A more elastic standard of what?—We want the chance of developing our industries with more capital without at the same time bringing down the price of gold. That, in its essence, is the nutshell of the whole thing.

2486. So far as the world is on the gold standard, the price of gold is a fixed thing, isn't it? If sterling should return to a gold basis an ounce of pure gold would always be practically 85½.
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Let me put it this way. There is a tendency all over the world towards, I think, inevitable socialization. At the same time a standard has been created of gold, and up to the war, up to 1914, London was the money market of the world. To-day that has been almost radically changed. The United States has almost as much say in the distribution of capital as London. There are other countries, too, and I suppose almost radically changed. The money market of the world.

It is undeniable. The standard has been taken away from the government of the State bank or a people's bank organized by this country.

2487. You are in favour of returning to the gold basis with restrictions? You are the first person that I can recall that has taken exactly that position. I wish you could be specific and say what these restrictions are you have in mind?—I think a guarantee should be obtained. Of course, that would involve legislation straight away for a State bank or a people's bank organized by this country.

2488. Your idea is that when the announcement is made that the government will return to the gold standard on 1st July it should be announced that it intended to use all its influence for the immediate establishment of a State bank?—Yes.

2489. So that that State bank could be put into operation at the earliest possible date?—Yes.

2490. And before 1st July next?—Yes.

2491. Give us your reasons for that?—I think this country needs capital to develop its industries. At present it is having great difficulty. Our industries are not developed.

2492. You speak of this need of capital. We have had a number of bankers before this Commission and a number of them tell us that they are carrying, and have been carrying for a long time, substantial balances in London. We asked them why they did not bring them out here. They replied that as conditions are and have been for some time here, there is not a sufficient field for their investment; that they cannot invest them here safely at rates of interest that would be reasonable; that risks they consider are of such a character as not to justify their lending more here for the present. So they are keeping these large sums abroad really because of the lack of opportunity, in their judgment, to invest them here safely and profitably. If that is true, where is the evidence of a lack of capital?—It is not so much a lack of capital. It is the fact that the capital is not available, because the businesses in this country are not big enough; that is to say, with the exception of the mining industry and perhaps Schlesinger's, and a few other people, we have nothing on a big business scale.

2493. You are the biggest producer of gold in the world, the biggest producer of diamonds in the world, and you are producing a considerable amount of wool?—There is a considerable amount of development here that is being stopped, that is being curtailed. The diamond mining industry, for instance; a good deal of probable developing fields are not worked, to keep up the price of diamonds.

2494. The diamond mines. I understand, are not suffering from a lack of capital. According to the reports that come to us, the diamond industry is controlled largely by the Diamond Syndicate, and production is restricted according to plans which they agree upon, so that the amount of diamonds thrown on the market will be so limited as to yield them what they consider the maximum possible return, and they are particularly careful not to break that market. I have never heard any evidence that the diamond industry was suffering from a lack of capital?—I am not saying that they are suffering. I am saying that the potential industries in this country are not being developed. A place was started down in Vryheid. It was getting some ammoniated product from coal. Suddenly this industry closed up; they said from lack of capital. There were rumours that certain other people were interested, that it was beginning to pay, and that it was closed down by
being bought out. That is merely an illustration of the restriction on any sort of development in this country, because capital is controlled—we must accept the fact—by certain interests.

2495. We have one main problem before us, namely: Should this country return to a gold basis 1st July next; and we are concerned with other things only in so far as they are related to that question? To what extent would this control you are speaking of, or this lack of capital, be affected by returning to the gold basis 1st July next?—The return to the gold basis and the establishment of a State bank would provide a sufficient guarantee for the giving of credit in this country.

2496. Isn't there a guarantee now for the giving of sufficient credit? Here is your Reserve Bank with very large amounts of funds and the other banks calling on it very little. Here is the largest bank you have in this country with enormous funds abroad, and apparently no opportunity to invest them here, as they say, safely. Why do you need a State bank?—The people are so small in this country in the way of business; they cannot buy the capital.

2497. Do you think a State bank should be established to lend them capital lower than the market rate?—I think it will have to in the end.

2498. Who is going to pay for it then if it lends at lower than the market rate?—I think this country will have to undertake that loan.

2499. You mean the people will have to provide the funds for a State bank to lend to the industries at an artificially low rate in order to develop the country?—I don't think it will be necessarily an artificial rate, but it will have to be lower than the present market rate.

2500. Then somebody must provide funds somewhere at a lower rate than what they could get elsewhere for those funds?—Quite. I think this country must undertake that burden.

2501. Are you going to tax the public to obtain these funds?—I believe that in a thing like this what you are really doing is you are insuring against your future. What is happening in this country is, we have two races here striving for nationhood, the black race and the white race, not to mention the racialisms in between. The standard of life of the white is disproportionate altogether to the standard of life of the majority of the manual labourers in this country who are black. Don't let us blind ourselves to that. The majority of the workers in this country are black. Their standard of life is a very low one. Taken in the Ricardian sense the standard of life is determined by the wages of black labour. It averages between £1 and £3 per month.

2502. Do you mean to say that that is the factor that determines the wages of white labour?—In the end it will determine the wages of white labour.

2503. It has not so far?—It is just starting to now.

2504. There is very little competition between most white labourers and black labourers?—That competition is setting in acutely now. I know of instances of the British Empire Service League men hiring themselves out to farmers at the rate of £3 a month. The farmers in this country to-day are crying out for labour. As a matter of fact, they cannot get sufficient black labour. And in two or three months' time I anticipate the outcry will be such that the Government will have to adopt some sort of measure to provide this labour; especially as the result of the successful rainy season we have had.

2505. Tell us something about the character of this State bank you propose. We have very limited time. We just want to get your message on that very briefly?—I think, whether we want to admit it or not, we are tending more towards public control; let us say, the distribution, the development of industries, the control of industries, and that sort of thing. We are developing towards a state of socialization. Whether it comes now or in 100 years doesn't matter at all. The fact is that we are developing
that way. And the policy to be adopted should be one which would take account of that idea, that we are developing towards the public control in the public interest.

2506. Would you do away with the Reserve Bank entirely then, and substitute a State bank for it?—At present, I don't think so. At present, I think the Reserve Bank is serving a very good purpose by acting as a stand-by, in view of the fact that this State bank will have to lend money lower than the market rate at present.

2507. (Dr. Vissering.) Lower than the market rate?—Yes.

2508. (Professor Kemmerer.) Is the Reserve Bank going to lend to the State bank at still lower than the market rate? (Market rate, 6 per cent.; Reserve offering 5½ per cent.)—My point is that money was offered by the Reserve Bank below the market rate on first class commercial bills, etc., but not low enough to benefit the class of person I have in mind, and whom we must try to save and help if we persist in our idea of a white civilized standard of life.

2509. The question of whether a State bank is to be established is very closely tied up with the question of the proper functions of the Reserve Bank?—Yes, it is. I don't think you ought to cut out the function of the Reserve Bank right away. I think in the first place it can serve a good purpose by more or less guiding the activities and the policy of the State bank, especially in a crucial time like this. It could act as a stop-gap where any policy may be contemplated that has not already been explored.

2510. Your new State bank would be a central bank?—Yes.

2511. Would it issue notes?—Yes.

2512. Then you would have a country with two large commercial banks doing the major part of the business, with a few smaller banks, and with two central banks, each one issuing bank notes. This country certainly would be blessed with central banks if you would adopt that plan?—The main thing would be that these banks would be publicly controlled.

2513. How would your proposed new State bank be publicly controlled? What would be the type of organization you would give to it?—I think the Australian method could be copied.

2514. What do you understand the Australian method to be? I understand the Australian method has been changed lately. Just describe the character of the bank you want?—We want a bank from which sufficient security would be forthcoming in the shape of grants and loans and that sort of thing by the Government.

2515. Who is going to borrow this money; the Government?—The Government would borrow the money.

2516. The Government is going to establish the State bank and borrow money for this bank, and is going to pledge, what?—The Government will provide the guarantee at the same time.

2517. The Government is going to borrow money on the basis of its own promise?—Yes; the Government is promising against itself.

2518. If the Government is going to do that, why have a bank at all? Why not let the Government issue paper money directly to the public?—I think that would interfere with our export trade.

2519. Would it make any difference whether the money was issued directly by the Government or through a State bank which the Government authorized and controlled? How would it affect your export trade if the new paper money were managed in one way more than if it were managed in the other?—At present, I think, our pound is still better; it is at a premium at any rate with sterling; and if we adopted that method of simply issuing notes I think we would have an immediate drop, which would directly affect our export trade.

2520. If you establish a bank, and it issues notes to the Government, you would have an immediate drop the same way, wouldn't you?—Not necessarily.

2521. Why not? The notes go into circulation and increase the supply of money. It is simply a question of whether the
notes go out directly from the Government or go out by way of a Government bank, which is really the Government?—You would be increasing the purchasing power of this country.

2522. Why? Can you increase the purchasing power of a country just by issuing more paper?—In some cases, yes. It has been proved that you can.

2523. Where has it been proved?—In Germany.

2524. You think the purchasing power of Germany was increased by her large paper money issues during the war and immediately thereafter?—Not on the Reichmark. They were using that as a blind practically. It was the issue of the rentenmark that really brought them down to stabilizing their whole exchange abroad.

2525. That took place later. If the issue of these hundreds of trillions of marks paper money did not help the country, why would the introduction later as a substitution for them to a considerable extent of the rentenmark at a ratio of a trillion to one help them?—I still don’t lose sight of the fact that this is a gold-producing country, and that gold is a commodity here, and that, as far as the gold mining industry is concerned, the creation of a State bank would indirectly benefit it.

2526. This is the largest gold producing country in the world. Its principal article of export is gold. You naturally want to make as big and as favourable a market for gold as possible. You are proposing a plan for increasing the amount of paper money in this country very decidedly. If the experience of these other countries is at all a guide, or if the Ricardian principles you have referred to are at all a guide, the more paper money you have in circulation, the more quickly the little gold you have here will be driven out. If other countries followed the same example, you would practically drive all gold out of circulation. That would depreciate the value of gold, and have just the opposite effect to what you want?—No; by returning to a gold standard you have already prevented it.

2527. You would return to the gold standard and maintain it, and at the same time put a lot of new notes into circulation. Should those two things be inconsistent?—The whole point is that we need the capital to develop the industries. If the idea of a white civilization in South Africa is a myth, and if we have to develop the natives, who are at a very low standard of living at present, it is simply a matter of the whites coming down. If we cannot take that risk by capitalizing, so to speak, the white worker—and, after all, he is merely a wage-earner under the present system—if we cannot take these extraordinary circumstances into consideration, our alternative course is obvious.

2528. (Mr. Middleton.) Was there anything you had to say in regard to wages?—I think white wages might go down a little for some time.

2529. (Professor Kemmerer.) By the adoption of the gold standard?—Yes.

2530. Why?—They would not go down right away, but I think they would remain practically stationary for some time; because I think the demand now is going to be greater in agriculture than in the mining industry.

2531. Your paper pound at to-day's rate of exchange is practically at par with gold. If you adopt the gold standard, you stay at par. So why would the clinching of a situation that you already have affect wages in any way?—We don't want to reduce the cost of living in this country, and so damage the trader and farmer. We want to increase our purchasing power. We don't want to lower the price of produce that is obtainable by our producers here, farming or mining. But at the same time, by capitalizing, so to speak, the white race in this country, by giving them a further financial impulse, we will have taken consideration of the fact that a great many more natives will necessarily be employed in the farming industry. For that reason a sudden up-rush of wages would be detrimental to the country.

2532. Why is a return to the gold standard going to cause a sudden up-rush of wages? A minute ago you said it was going
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to keep them steady, with perhaps a decline. Now you speak of an up-rush. I don't see how a return to the gold standard is going to have these effects that you are mentioning. In fact I am not at all clear as to what are the effects you have in mind?—I said that wages in my opinion would probably go down very steadily. I think at the same time they would remain practically stationary for some time. But what we have to obstacle, what we have to take care of, is that the rate of wages, because of the increased demand for labour that is bound to ensue for the development of new industries, will not upset the present white standard of living, by a sudden up-rush of the native wage; and because the demand for labour will be such that I think we will attract white immigrants from abroad. If we were to suddenly increase white wages that attraction may prove to be detrimental to the country in the end. If we get in more immigrants, the resultant competition that would set in and the resultant decreasing wages would react detrimentally to the white standard of life in this country. What we have to guard against is that the white wage at present remain practically stationary with the possibility that the native rate will increase, but not at a rate that will cause a sudden upset on the part of the white workers and their labour's worth to the industries, etc.

TUESDAY, 23rd DECEMBER, 1924.

Mr. David Crombie Greig (examined).

2533. (Professor Kemmerer.) What is your occupation?—I am a stockbroker and farmer. This is a short statement I have prepared. I understood from several who have appeared before you that the detail was mainly developed in the course of examination.

2534. How long have you been in this country engaged in stockbroking and farming?—Since 1892.

2535. So you are fairly familiar with economic conditions in the Union?—I think so.

2536. You know, of course, that the problem which has been specifically placed before this Commission is the question of the advisability, or inadvisability, of South Africa’s returning to a gold basis 1st July next, regardless of what action may be taken by Great Britain between now and that time. We are concerned almost entirely with that problem, and our concern with other problems is only of some consequence in so far as other problems are related to that main problem. Are you in favour of South Africa returning to the gold standard on 1st July next without any restrictions?—No.

2537. Will you kindly give us your reasons for that judgment?—Well, our entire business is transact ed in sterling. It is on a sterling basis.

2538. If I may interrupt: Your internal trade in this country is on the basis of the South African pound. is it not?—Yes.

2539. The South African pound is a different thing from the pound sterling, is it not?—Yes.

2540. So your internal trade is not on a sterling basis?—That is so.

2541. Your two principal items of export, if I am correctly informed, are gold and diamonds?—And wool.

2542. I spoke of the two principal ones?—I beg pardon.

2543. Wool, I should think, is the third?—I think so.

2544. In going over the official figures for your export trade for the period 1910-1922 inclusive. I find that, roughly speaking, of your visible items of export trade, 55 per cent. was gold and 10 per cent. was diamonds. I believe that is approximately correct. We have been told that the great bulk of your diamonds, something like two-thirds, find their final market in America; and also that during the last few years at least, practically all of your
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gold has found its final market in America. Lately there have been substantial shipments to India. America is one of the few countries that has increased its supply of gold enormously since 1914; so the bulk of your gold has also apparently gone to America. If that is true, then during recent years, two-thirds of your visible exports sooner or later have found their final destination in America. Inasmuch as it is the final consumer that determines the final price that is paid, it would seem reasonable to say that the dominant factor in determining the price of these commodities was the American demand, and that Great Britain had acted largely as a go-between in the marketing of these two particular articles. In the sale of these articles, therefore, you have always been involved in one unstable exchange. You may have had stability between South Africa and London, but if you have, you have had instability between London and New York. So you have had during the period of inconvertibility one unstable exchange to deal with in regard to these exports in any case, and that is all you would have if you would stabilize with gold and depart from sterling?

2545. Would that have any bearing on your answer to the question or not? — I may say the chairman of De Beers has authorized me to speak on his behalf. The position of the diamond mining industry is this. It is paid in sterling, and no matter what your rate of exchange may be for Kimberley on London there is no set-off to the cost of operating the diamond mines.

2546. You cannot be paid any higher value in sterling for your diamonds than those diamonds realize in their final market, less the expenses of marketing, can you? — There is the cost of bringing the money here, which is a very big item in the diamond industry; the cost of bringing the money out to South Africa for the payment of wages, and for the payment of interest, debentures, and so forth. That is a very large item.

2547. In what form does that money come out here? — They simply attempt to buy it in the open market. I am a buyer myself, for instance, for the Premier Diamond Company.

2548. If the company wishes to have funds here, as credits in South Africa, I should think what it would be doing would be selling sterling exchange for South African money? — Yes.

2549. It would not be buying exchange, it would be selling the sterling exchange for South African money? — What I mean by that is buying remittances to London, which is the same thing. My instructions are to buy as cheaply as possible any remittances which may be offering to London; and I have to go as a rule from one-eighth to one-quarter over what the banks are offering for these remittances.

2550. I am not clear on this: I should think buying remittances to London would be for the purpose of paying for imports from London; but if you are exporting diamonds and receiving your pay in London, you would be selling bills against those proceeds for the purpose of getting money down here with which to pay the expenses here? — I think I am just saying the same thing differently. They want their money here to pay for their debentures, interest, and working expenses, and I purchase that exchange for them, and I have to give from one-eighth to one-quarter over what the bank is offering in order to get it.

2551. You are talking from the point of view of paying in sterling in London for South African pounds with which to pay the expenses here? — Yes, it is just the same as you speak of, only perhaps I am not so accurate in my outline. They get no set-off, no matter what the exchange may be for imports. Their profits are directly as the exchange moves. Now, as regards the gold mining industry, I may say the gold producers' committee is of the same opinion as I am, with this reservation, that it is understood that it is the intention of Britain to go back to the gold standard as soon as possible. I believe that such is the case.

2552. That has been the declared policy of Great Britain ever
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since the Cunliffe Committee's report of several years ago, has it not?—Yes. I accept that. They make that reservation. Now, as regards the gold mining industry, it is of paramount importance to it that sterling should remain steady in terms of commodities. They are paid for their gold in sterling, and, therefore, if it remains steady in terms of commodities, then your working costs are known. Now, practically speaking for the last three years, there has been very little variation in the cost of production in sterling in terms of commodities. They are paid for their gold in such a way that stores don't vary much; that is, in the things which are imported.

2553. Sterling has varied in terms of commodities in the last few years more than gold has?—Yes, but it has not been sufficient to make any marked difference to the working costs of the mines. If you go over the working costs for two or three years, you will see that stores don't vary much; that is, in the things which are imported.

2554. You mean to say that things that are imported from England have not varied much in price during the last few years?—Not so far as is reflected in the prices paid by the gold mining companies.

2555. I have a chart here that has been prepared by the Bureau of Census which shows the price movements of a consideration group of imported commodities from 1913 to the present time. This solid line [illustrating] represents the movement of the combined index number of imported commodities—that is 1920 with the peak.

2556. These prices reached their peak in 1920, as did price levels in practically all countries. They then declined very rapidly down to about the middle of 1921. They have been fairly steady since.—That bears out what I say. But in any case the consumer here seems to get no appreciable difference in the prices of things on account of the premium in exchange which the importer gets. In practice such is the case.

2557. This chart shows that when the price index number in Great Britain rose from 1914-1920, the index number of imported commodities in South Africa rose almost at the same time, and rose practically to the same height with a very slight lag. Then, when the price level in Great Britain turned downward, the price level of imported commodities in this country as well as the price level for all commodities, moved downward in the same way, with a varying lag, a lag averaging probably three or four months. So that so far as the evidence of this chart is concerned, it looks as if changes in prices over there were very quickly reflected here, and were more quickly reflected here on the rise than on the fall. It appears that the importer here to show a fairly good response here of prices to changes in prices in Great Britain?—Yes, I am only speaking of the last few years.

2558. This seems to show, and the testimony of a number of people that appeared before us has been to the same effect, that there is with that brief lag a fairly good response here of prices in South Africa to changes in prices in Great Britain?—Yes, I am only speaking of the last few years.

2559. There have been almost no changes in the last few years, so that that would not be a fair test?—It remained steady with sterling in terms of commodities during the last three years.

2560. If you should plot on this chart a graph showing the movement of gold standard prices in the United States, you would have a similar decline from May, 1920, to about the middle of 1921, and you would have an even greater degree of stability since then than you have had in England. You would find that prices in the United States and values here, measured in gold values, were likewise closely co-related during that time, because there has been a very close degree of stability in both. If we are going
to test the question whether there is a real responsiveness of prices here to prices in Great Britain. I should think the test would be when there were periods of important changes. Then you could see more clearly the play of these economic forces. In those periods you would see a very high degree of responsiveness?—I remember when I was giving evidence before the Select Committee in 1920, this point arose, and those of us who were dealing at that time in exchange, like myself, were making very large profits, simply because this country is quite unsophisticated. It has never been accustomed to an exchange which fluctuated.

2561. In 1920 and early 1921, dealers in foreign exchange pretty generally all over the world were making high profits. Anybody who speculated for a depreciation in currency was pretty sure to make money, if you took it on a big scale. Then when the situation turned around and prices came down, a large part of the exchange profits that were realized on the rise disappeared in the fall?—This was not speculating in currency at all.

2562. Such a purchase of a fluctuating commodity is with the idea of getting a profit. Your price may change because the value of the article you are buying changes, or your price may change because the value of the money with which you are buying it changes; but in any case, if there are ups and downs, and you are trying to buy cheap and sell dear, it amounts to what people would usually call speculation?—Dr. Vissering would probably call it with me arbitrage. It was arbitrage really in money which showed these profits.

2563. (Dr. Vissering.) You were covering on both sides?—Yes. It was pure arbitrage.

2564. So from your side it was not a speculation, it was ordinary business?—It was not a speculation.

2565. (Professor Kemmerer.) If you were covering on both sides, where did your profit come in? You had only the profits from commissions or margins between buying and selling rates at any one time?—Not commission—an actual difference due to the fact that the people here knew nothing about exchange and dealing in it.

2566. You would not make a speculative profit if you were covering all your purchases by corresponding sales, as I see it, but you might make a fair profit if you had a nice margin at all times between your buying rates and your selling rates?—The margin was far too wide. That is the real trouble. One of these big merchants when he heard my evidence before this Committee came and told me that he was making hundreds of thousands of pounds. I cannot say whether he was telling the truth or not, but his business was one in which he was both buyer and importer. He married the exchange, and that is where the tax came on the community then. It was the wide difference charged between buying and selling. So that you see this country is not like any other country, like America or Holland, accustomed to fluctuating exchanges where you make very, very narrow margins. Here you have wide margins.

2567. It would be possible, would it not, to eliminate most of the evils of rising and falling exchange by means of forward contracts. I have been in many countries where exchange rates were jumping as much as 4 per cent. or 5 per cent. a week. The banks were making good profits by commissions and by substantial margins; but as far as the importer and the exporter were concerned, they were not suffering much from the instability of exchange, because they made all their contracts forward, and knew what to count upon?—If you talk to the ordinary person out here about forward contracts, he would not know what you are talking about.

2568. I am inclined to think that that is something this country will have to come to, and fairly soon?—There have been such things as forward contracts.

(Mr. Greig.) In this questionnaire you repeat yourself several times. For instance, these questions you were putting to me just now involve questions which would come in under the Reserve Bank.
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2569. (Professor Kemmerer.) You need not follow the exact line of the questionnaire. The main thing we wish is to get your message?—Speaking generally, my message is this: it is based on the belief that the prosperity of the country depends on the abundance of the things produced, and not on the medium used in effecting the exchanges. That is the general principle that I work on.

2570. But isn't it true, that, while most people I think would accept that as a general proposition, the character of your medium of exchange may, and frequently does, have a very great effect on the abundance of the things produced. Certainly, when a currency is rapidly appreciating in value, and prices therefore are continually declining, it has been recognized for a great many years that you have a very depressing influence on all kinds of business. Under an appreciating currency, if a man buys to-day and sees that what he is buying is lower in price to-morrow; if he buys real estate and sees the price of real estate going down; if he buys supplies of one sort and another and finds their prices going down while he holds them, the tendency for every one is to say "Well, if I borrow money to-day, I am borrowing cheap money, as far as purchasing power goes, and if I pay back next year, or two or three years hence, I am paying back dear money." The tendency is for him to hold off, to wait until prices are lower, not to buy more than necessary in a falling market. The tendency is not to expand at all, but to wait for lower prices, and for him meanwhile to put his money in the bank, where it will be safe. That is what happened in most countries during 1921, 1922, and 1923. Under such circumstances bank credits pile up, business is depressed, unemployment increases, and all this is largely due to the fact that people don't want to incur obligations in a monetary unit at a time when that unit has a low value to be repaid at a time when it is likely to have a much higher value. On the other hand, when prices are rapidly rising, you have a sellers' market, as they say. Every one wants to buy heavily, because he says "If I buy to-day, why, I buy cheap. If I hold off until to-morrow or next month, or next year, prices are going to be higher." So the tendency for every one is to drop money while it is depreciating and turn it into goods. In that way an artificial stimulus is given to trade. So that, I should say, the experience of recent years, as well as the experience in the world's monetary history before, is that a depreciating monetary unit artificially stimulates trade and tends to make it very speculative; while an appreciating monetary unit depresses trade, and tends to cause unemployment and all sorts of hardships. While what a country produces is an all-important factor in a country's prosperity, still, the monetary system is an enormous factor in the determination of what the country is going to produce, and in what it is going to buy and sell abroad?—I agree with all that you say, but, as I say, this country is far behind other countries. It is primitive to-day. Its prosperity depends on the abundance of the things produced and not on the medium of exchange. You have also got to take into consideration this, that in practice we are linked with sterling.

2571. Just how do you mean "linked with sterling"? South Africa is certainly not at parity with sterling now, and has not been for some time?—Yes, but your rate of exchange to-day bears accidentally the same relation to the dollar exchange, doesn't it?

2572. Here, for example, is a table of the South Africa-London exchange rates from 1913-1924. You were tied up pretty definitely with sterling during the war period when the exchanges were pegged, but since then this is what has been happening [illustrating] in the South African price of a pound sterling, and it does not seem to show a very close tie up?—By linking I mean in our business relationship, in actual business. I cannot deal, for instance, with Amsterdam, except through London.

2573. Can't you buy or sell guilders through the Netherlands Bank here?—They want cheques on London, the same as my people in Paris do. I got into an awful row once through my office paying Paris by South African draft.
2574. How do you explain the fact that here the banks insist on every operation being carried through London? In most countries that isn't done. Most countries in the position that South Africa is in have direct exchanges with other money markets. The banks here, take the Standard Bank and the National Bank, both have branches in New York. They both have every opportunity of placing funds in New York whenever they want to, and of obtaining funds there. There is a substantial amount of business done between this country and New York, and an increasing percentage of South Africa's total business. I don't see any reason myself why the banks in this country should not carry on direct operations with both New York and Amsterdam, unless it is that they expect to make more profit the other way?—I cannot speak about the banks. I can only speak about my own personal knowledge of what Amsterdam and Paris ask for. Amsterdam is much more keen on having a cheque on London than a South African draft. They may want to pay something in Timbuctoo for all I know with that money. Paris says the same thing. Paris wrote to me once and said that I ought to know that it inconvenience them to take a South African draft, that in future all business must be conducted by cheque on London. My Paris bankers wrote me that.

2575. We all recognize that fact. The question is whether that is not due to a considerable extent to the circumstances that the exchange business here is in the control of two or three banks. They get together and agree on rates, and, for reasons of profit, find it to their decided advantage to carry on all their operations through London, rather than to establish direct exchanges.

2576. (Dr Vissering.) The Standard Bank also have an office in Amsterdam, so it should have been possible for them to deal direct with Amsterdam?—I don't want to appear to teach my grandmother to suck raw eggs, you understand. I don't want to attempt that.

2577. (Professor Kemmerer.) Don't be afraid of that. I don't know your grandmother, but if you are referring to me, I should say your grandmother needs a lot of teaching?—My studies lead me to this conclusion, that the world is drifting into two clearing-houses for banking business, that is, London and New York. Gradually all countries are linking their currencies with the currency which is most favourable for their trade purposes. That is the tendency of the world, I think.

2578. What countries would you say now have their currencies linked up with London?—I should say a great part of the Far East. I should take, practically speaking, the whole of Europe. I should take Egypt.

2579. In the Far East, certainly Japan's relations are very pronounced with New York, and Japan was practically on the gold basis for some time before the earthquake. The Philippines' relations are largely with New York and San Francisco, and a very large amount of Chinese business and finance is carried on directly with New York. Indian exchange has been more stable in terms of dollars lately, I believe, than in terms of sterling.

2580. (Dr. Vissering.) The market in Java, in Batavia, was so developed that you could get any amount on London, on New York, on Japan, and, of course, on Holland; also, probably, on Paris?—In Calcutta you will always get quoted there a cross rate, New York or London. That only confirms what I say. It naturally follows that if a country, for instance Germany, has a large proportion of her trade with Britain and with New York, she will have to keep balances at both clearing-houses.

2581. You can do that also every day?—Yes; through either London or New York clearing-houses. You know, Dr. Vissering, that it was the Dutch that shifted the money market from Amsterdam to London. They shifted the money market of the world from Amsterdam to London in 1689 because they considered that the foundation of British credit was better than the continental foundation. But up to that point there was no business in the
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world considered of any importance unless it held balances in
Amsterdam, because you could settle in Amsterdam with any
part of the world.

2382. (Professor Kemmerer.) Don't you think one of the main
reasons why London, prior to the war, had developed such a
strong position and had become so emphatically the world's
money market centre, was the fact that England had been for
such a long period on a gold basis, and that London was for a
long time the only important free gold market in the world?—
No; I don't. I think the real basis of British credit is the
fact that they meet their engagements, and people believe they
will meet their engagements. Therefore, they were able to keep
a minimum amount of gold. They only kept such an amount
as would enable them to balance their international indebted-
ness.

2383. When you speak of meeting your engagements, you
imply, do you not, that you are meeting your engagements not
only by fulfilling the letter of the contract, but that you are
meeting them presumably in the kind of money in which they
are incurred or in something approximately the same value in
terms of gold or commodities. If a country like England should
meet all its engagements, and, while doing so, should be
depreciating its currency and so meeting its engagements in a
fluctuating pound, in a pound whose value was being continually
depreciated, would it not soon get the reputation of being a very
unsafe place in which to invest funds because of the danger that
those funds would be repaid in a much less valuable money than
the money in which the investments were made?—Yes.

2384. (Dr Vissering.) I may cite also the case of Amsterdam.
We are keeping large foreign balances, but only a small portion
is with London, not because we have no confidence in London,
but we are not sure that we will get the price that we had to pay
for 'them. It is not only a question of confidence, but of
certainty: you must be able to realize the same price?—In any
case, if you come back to South Africa and take my own case
as a wool farmer: it doesn't really matter to me whether there
is a depreciation or appreciation of British sterling. I send my
wool home. If sterling has depreciated I get so much more.

2385. (Professor Kemmerer.) Suppose when sterling depreci-
ates the price of wool lags behind the depreciation of sterling so
that, while you get more sterling for your wool, you don't get
proportionately more. It generally happens when a currency is
depreciating in terms of foreign exchanges that the price level
and the prices of a great number of the commodities that make
up the price level don't advance as rapidly as the exchange rate
advances. In that case you don't get as much more proportion-
ately as you ought to get because of the lag?—Yes; but supposing
as I say that I do that, that I sell my wool. I get more or less,
but it doesn't really matter. If I get more for my wool I
have got to pay more for what I wish to buy, so that it balances itself. These fluctuations in the dollar-sterling
exchange don't affect this country very materially.

2386. Doesn't the same thing apply at the other end? If the
exchange here goes to a discount, you get the same number of
pounds sterling for your exports but you get less pounds South
African for a given amount of sterling in converting sterling
into South African pounds. The price level, meanwhile, goes
down here, and your South African pounds buy more. You
have applied the principle to London. It applies to every
country the same way. You must take into account, in what
you are getting here, not the mere number of units but
what the unit is going to buy in connexion with the things you
wish to purchase or the indebtedness you wish to pay?—Yes.
We were speaking about the real tax, that is the difference
between the buying and the selling rate. One of my
objections to South Africa's returning to the gold standard is
this, that the difference, which to-day is one and one-sixteenth—
the difference between buying and selling here—is quite possible
under your gold standard, because you have got to take into consideration the fact of the distance between here and the clearing-house.

2587. We have been told that the gold export point here under normal conditions is, roughly speaking, about one-half of 1 per cent. above parity, and that the gold import point is about one-half of 1 per cent. below parity. If that is true, the outside fluctuation in exchange could not be more than one-half of 1 per cent. If England and South Africa were both on the gold standard. And your exchange could never for any considerable amounts be appreciably more than one-half of 1 per cent. above par or below par. But on the paper money basis you don't have any such limits, because the importer or the exporter doesn't have recourse to gold shipments whenever the rates get beyond those points?--Yes. The cost of shipping gold to-day is 15s. per cent. The cost of bringing it in is the same. Isn't it possible then for the banks to charge one and one-sixteenth?

2588. You are speaking just of the cost of shipping gold, and not allowing for any premium on the gold?--The premium has nothing to do with it. I am assuming that you are on the gold standard, that you are shipping freely to London or importing freely from London, and the expense is due to the ordinary charges such as freight, insurance, packing, and interest.

2589. (Dr. Vissering.) Altogether 15s.?--Yes.

2590. (Professor Kemmerer.) That is a higher rate than we were given to understand prevailed before the war. If because of increased freights, or increased interest rates, the expenses are as much as three-quarters of 1 per cent., that would mean, then, that the gold points would be three-quarters of 1 per cent. above parity, and three-quarters of 1 per cent. below parity, would it not? Under the gold standard you have the limits fixed by the gold points, beyond which the banks cannot go, whereas now, with a paper sterling exchange, you have no such fixed limits?--Of course, I am always speaking of the difference between buying and selling. The power which is given to the banks would enable them under the gold standard, if you adopt it, to charge the same difference as they do to-day. I think that is clear.

2591. As I take it, when one exchange is on a gold basis, and one on paper, the possible variations in the exchange are unlimited?--Yes.

2592. If the possible variations in exchange are unlimited and there is no ready flow of gold into and out of the market, you don't have rates fixed by the gold points as you would have if the two countries were on the gold basis?--Shall I deal, then, with the country as it was on the gold standard?

2593. Go right on?--Have I made it quite clear that under the gold standard under present conditions it would be in the power of the banks to impose the same difference?

2594. (Dr. Vissering.) These costs of 1½ per cent. on both sides are extremely high?--I might just revert to this point, first of all, when you say that if these gold points are exceeded, advantage would be taken to bring in or ship gold. Such is not the case in practice in South Africa. There are only two instances, I think I may say with perfect confidence, of private people bringing in gold to this country.

2595. (Professor Kemmerer.) That would be expected, because this is a large gold-producing country. And now, of course, you have the mint here for coining gold. It would seem on the surface that what would happen would be that when this country needed more gold it would simply export less than it otherwise would. Gold would be in process of exportation all the time. When you need more gold, it would be a question of holding back some of the gold you otherwise would export. You didn't have the mint here before? This was a question of bringing money from London. There was a great deal of development work going on in those times, and Sir Lionel Phillips told me quite recently that they imported several hundred thousands of pounds; I think, speaking from memory, £350,000. They could not get a fair rate from the banks, so they actually brought these sovereigns out.
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2596. Do you know when that was?—No, but I could get the date for you.

2597. (Dr. Vissering.) Was it before the war?—Oh, yes. I am speaking of when South Africa was under the gold standard; somewhere in the '90's—it might have been 1889 or 1890. It is a long way back, anyhow. But this other instance was at a time when the railway was not built, when you came by coach from Kimberley to Johannesburg. Barnato Bros. had a quarrel with the Standard Bank about the rate which they would charge for bringing £750,000 out here; and they actually brought £750,000 in sovereigns and were ready up here to receive them: but the Standard Bank took the whole consignment over at Capetown and reshipped it to London. It was never taken out of the boxes: they caved in. These are the only two instances I know of where private individuals have brought gold out in large quantities.

2598. (Professor Kemmerer.) How was it brought out before?—By the banks. The banks could afford to deal in large quantities. It would not do me any good to go and ship £2,000 in sovereigns; the trouble it would be to me.

2599. In the future you will not have that difficulty. Your gold will be coined right here, and anybody that has gold will be able to take it to the mint and get sovereigns for it. That privilege will be granted to individuals as well as to the banks?—They will never coin gold here, unless they are mad.

2600. They are planning to coin it here on a considerable scale. They have all the machinery ready?—I am very anxious to have a long argument with you. Didn't it strike you as being a very extraordinary thing that they should have a mint here and the refinery at Germiston? Wasn't it like the farmer who put his threshing mill as far as he could from a wheat stack?

2601. There is some distance, but it is not great.—It is material when you are dealing with large quantities of gold.

2602. There has been some discussion already, we have been told, of attaching a small refinery to the mint here?—Yes. Now, under the Currency and Banking Act, it is possible for this country to do as you do in America; that is, paper against bullion. The American system is the most advanced of all credit systems. There they are acting according to the Scottish philosophy of banking.

2603. In America anybody can take gold to the mints in any quantity he wishes to, and have it minted?—You can, but you don't do it.

2604. A good deal of the gold is held by the reserve banks in the form of bars, and a good deal is held in the form of coin; and anybody can get coin when he wishes to. The banks keep enough to meet any demands the public may make. We are not to go to the expense of coining a great deal of gold which will not be used. One principal use of gold in the United States is for the purposes of making international payments, and bars are very often better for that purpose than coin?—I am correct in saying that the American system is paper against bullion against the British system of paper against coinage?

2605. I would not say that: I would say in America we have both. Any one who brings gold to the mint can get coin when he wishes to. But anybody can sell bars to the reserve banks if the reserve banks are willing to take them. And a very substantial part of the gold is held that has been held against our gold certificates and against our Federal Reserve notes has been held in the form of gold standard bars. But we always coin as much as we think there is any need of, and it can be coined at any time, on short notice?—Yes. But the Scottish philosophy of banking regards the use of a gold metallic currency as an extravagance. And very serious calculations would have to be made if you reopened the mint here as to the cost of reconditioning this country in gold. That is a very serious question, and there are other questions arising out of it which I think would make it madness to open the mint at all.

2606. (Mr. Middleton.) South Africa doesn't pay for that cost?—If you indulged in this extravagance it would be at the expense of the country.
2607. Here we have a branch of the Royal Mint. The charge for coinage of gold is not fixed by the Imperial Government, but by the Union. The Union meets the cost of running the mint?—It may not be the British Government that stands the cost: it must be the last holder. So that, speaking for Johannesburg—I cannot speak for Pretoria—I say there are a very large number of people who are prepared to take advantage of the issue of full-weight sovereigns. I have even gone to the trouble of finding out what they could really sweat a sovereign to without danger to themselves. They think 15 per cent. with safety.

2608. (Professor Kemmerer.) If that is true, it is because you have very unsatisfactory laws that ought to be changed. I don’t know any other country in the world where you can do that with impunity?—The position is this: A man can take out £2,000 in new sovereigns, and one of the methods of doing that is to put them all into a woollen bag. It is an old thing. Then he shakes them up and it is reckoned that four hours of that will take 5 per cent. off. If you put in, say, fifty at a time, there is no bank teller or anybody who could tell the difference. You must not pay it back in a large sum.

2609. That is a possibility that exists to a great extent in all gold standard countries, and yet sweating has been practically discontinued everywhere. In the United States, and in England and in most other countries, if a gold coin has lost weight beyond a certain very small percentage for each year it has been in circulation, it ceases to be legal tender and ceases to be receivable at par in the payment of Government taxes, and becomes acceptable only at its bullion value. Any one who sweats coins is guilty of a criminal offence. In most countries they have prevented sweating pretty effectively. Here it may be that the penalties are not adequate. Here the imperial gold sovereign has weight in grains, 123.27; and a least current weight, 122.5. That is less than one grain difference; it is very much less than 1 per cent. And at that point it ceases to be current?—Yes, but, of course, it only means that if the fellow who does that succeeds, that the ultimate holder has to pay for what has been stolen. There is also this danger, that there would be a considerable drain of gold currency eastward, if the exchange made it at all profitable; to what extent I cannot tell you.

2610. Did you have this sweating of South African coins before the war?—There was no mint here then.

2611. What difference would that make? If such a profit could have been realized by sweating coins, then why didn’t the people sweat them?—There was a different class of population in this country.

2612. You think there is a very great change in the character of the population in the last few years?—I think it is one which we should take into consideration.

2613. You think it is more criminal now than before?—I should not like to say so, but I should say a good many people have come here who are perfectly conversant with the way of sweating the sovereign if the opportunity is offered. But the question I was thinking of more in connexion with the exchange and the return to the gold standard is this: If your gold is held immobile in reserve it has no bearing on credit. At least I should not think so. That was observed during the Great War in many instances.

2614. No one is proposing that if you return to the gold standard you would hold the gold immobile in reserves? It would be payable on demand?—Where our trade is mainly conducted with one currency, that is, sterling, and you believe or I believe that sterling is ultimately going on the gold standard, it is obvious to me that it would be better to hold interest-bearing securities in lieu of gold in order that the revenue derived therefrom should go, say, in reduction of loans.

2615. Don’t you think if you are to return to the gold standard and maintain it, you will need to have substantial gold reserves at all times?—I don’t think it is at all necessary for South Africa to hold a single gold sovereign.
Or gold bars either?—Or gold bars. She settles no international business herself. That is entirely settled through London on her behalf.

Well then, she would have to keep gold credits in London?—She will have to hold sterling balances, which is the same thing if they are convertible into gold in time to come. But I don't see any difference at all between South Africa and, say, Scotland.

You are proposing a form of the gold exchange standard?—I say simply that any country such as South Africa, which settles its foreign balances through London, or through New York, has no need to hold gold either in coin or bars, but should hold either sterling or dollar securities, yielding interest, and the interest from these securities should go in reduction of debt.

When you speak of settling balances just what do you mean?—I mean that whatever foreign trade we do is done through London, and on London falls the duty, the obligation, and expense of maintaining the gold reserves which will settle that business. And that has always been the grievance between London and Scotland. Scotland said: “You are the money market of the world. You do our foreign trade and settle it for us. Why should we hold gold? You hold the gold if you want to have that honour. We will hold paper instead.” Scotland has always acted on that principle, as I said, that a gold metallic currency in circulation is an extravagance. You get no gold in Scotland.

If exchange goes against you here, and you have to, we'll say, lay down gold credits in London or New York, you would have to draw your balances there in order to make payments. You could not redeem your notes either here, or there, could you, in securities? You would have to redeem them in gold, or in the right to draw gold on demand. That would mean that when you had any demand for conversion, you would have to convert those securities to the extent of the demand, into gold at the then current market price. That market price might be higher than the price at which you bought them, or it might be lower. The market price might occur at a time when there was a very poor market in which to sell the securities, or it might occur at a time when the market was very good. But you would be running a big risk in the ups and downs in the values of securities, and in not being able to market your securities satisfactorily at the time when the demand should take place?—No; that does not follow, because in a country such as this, these balances would be held in short-dated Imperial bills, which on maturity are convertible into gold, if you wish.

But your demand for that conversion might be at a time when there were none of those bills due?—These are convertible at a moment's notice in practice. They are only short-dated bills; three months and six months bills in any case.

In your opinion also, the Reserve Bank here should not keep gold; it should only keep foreign balances?—It should not keep gold—it should keep balances—because it is an unnecessary expense.

Then you have to be sure you can always get in London any amount of gold that you want?—Yes.

That can be done only if London is back on the gold standard?—That is the supposition. We cannot go back to the gold standard before Great Britain, in my opinion. We believe that ultimately Britain will go back to the gold standard. Therefore it stands to reason that it is better to hold in the interim Imperial Treasury bills, rather than gold, because gold yields no interest. It is exactly the same attitude as Egypt took up.

Gold yields no interest?—Gold yields no interest and is an expense.

A central bank, such as the Reserve Bank here in South Africa, has the right to issue notes to an amount 24 times as large as its gold holding. So a central bank gets in this way its recompense for keeping gold. It does not want to make the gold
remunerative in a kind of Treasury bill, for the gold that is in its vaults can be multiplied 24 times and with that it can come into the market and do its business?—This is a very important question. Would you defer that until the question of the State bank comes up?

2627. May I ask another question? We have two instances of countries that were of opinion that it would be better to keep foreign balances than gold, namely, Sweden and Greece. Sweden, at a certain moment, refused to accept gold, and wanted only to invest in foreign securities; and the Prime Minister of Sweden told me in January that experience had occasioned a loss to the Bank of Sweden of 100 million kronen. Greece started also such a system after the war, and sent away all its gold and wanted only foreign exchange in Paris, in London, and so on. Greece also has lost a great deal of money over its experience?—Yes.

2628. (Professor Kemmerer.) The Philippines did the same. They went to the gold exchange standard. It was working beautifully, but then they thought that they were not getting enough profit on their foreign balances, they decided to put those foreign balances in places where they could get more profits. They put them in the New York branch of the Philippine National Bank. The New York branch transferred those funds by exchange to Manila, and the Manila main office, under the influence of a group of people who were very anxious to make the maximum amount of profit for the bank, put those balances largely in hemp bills. The hemp market went to pieces, and Philippine gold was lost in hemp bills. The central bank will have to be told how to operate in the foreign exchange market?—The central bank should operate in the foreign exchange market. The central bank will have to be made into an exchange bank. A central bank cannot function as a bank of exchange, and the constitution of the central bank should be so altered that it is enabled to do so; that is my proposal.

2630. (Mr. Middleu.) Nothing in its constitution prevents it from undertaking, within limits, any class of banking business?—But I want to give it the power to reduce the rates of exchange, to bring those balances nearer together and reduce the taxation through exchange on the country as a whole. That is my object.

2631. (Prof. Kemmerer.) It has the power now?—I am afraid not.

2632. Why not? There is nothing in the law which prevents it?—But in practice, how is it to overcome the difference between the cost of importing and shipping gold? It has to overcome that difficulty, and it is to that my argument is leading, so that the Reserve Bank will be able to say the commercial banks cannot charge more than, say, a quarter per cent. either way.

2633. If this country needs more gold, it taps here at the source the outflowing gold and exports a little less for a time than it otherwise would?—I am speaking on behalf of general interests as well. I am looking at it from the point of view of the country as a whole. The country is to-day suffering from the excessive rate of exchange. It is checking development. But the real tax always comes back to the same thing, the difference between the buying and the selling rates. Now, to bring these two points closer together, that I think is the duty of the economist, if he presumes to be one.

2634. The man who is exporting goods wants a stable rate and a high rate. He is selling exchange if he is operating from this end. The man who is importing goods wants a stable rate and a low rate. Of course, the bigger the margin of difference
between buying rate and selling rate the more profit the banks would presumably make; and the bigger the margin of difference, other things equal, the more unfavourable the rate presumably is to each party, exporter and importer. I grant that. But the difference, after all, between having a margin between buying and selling rates of one per cent., or a margin of 1½ per cent., would seem to be a very small thing as compared with the ups and downs in the value of your monetary unit arising from the employment of inconvertible paper-money standards—"I have bought bills here when there was a free market in exchange. There used to be a free market in exchange up to, I think, 1907. All the banks competed then. We were under the gold standard, and all the banks competed for exchange against one another.

2635. (Dr. Vissering.) Was it possible at the time, for there is now no competition at all?—There have been three stages. First under the gold standard with the free exchange market, where the banks competed the one against the other, and private individuals competed also. Then there was a conventional exchange established in, I think, 1907 or 1908; that was, the banks formed a ring and agreed to fix an arbitrary rate, which was not based on anything in heaven or on earth as far as one could find out. It was simply an arbitrary charge fixed by the banks. They formed this ring, under the gold standard, mind you. Then the ring still persists with an inconvertible currency; and there is no one who can say whether there is any principle followed in arriving at these rates.

2636. Who can break this ring now?—Nobody.

2637. (Professor Kemmerer.) Isn't it true that there is a considerable amount of buying and selling between merchants outside of the banks?—Yes, I deal in exchange too, and so do others.

2638. You compete with the ring then?—It is of no consequence.

2639. If this situation continues for very long, isn't it true that new competitors are likely to come in here and organize an exchange business here. And, in the second place, isn't this a field in which the Reserve Bank should function? The Reserve Bank, as I take it, has as its principal function the protection of the public interest. In performing this function it should see to it that the rates charged by the banks are reasonable and equitable, and that the money market is conserved and the currency system is protected. The Reserve Bank seems to have wide legal powers for performing these functions. If in a country where there are only two or three commercial banks the Reserve Bank has not been performing these functions, as some maintain, in the past, isn't it time it began to come out and operate in the open field in which the Reserve Bank should function? The Reserve Bank seems to have wide legal powers for performing these functions. If in a country where there are only two or three commercial banks the Reserve Bank has not been performing these functions, as some maintain, in the past, isn't it time it began to come out and operate in the open field in which the Reserve Bank should function? The Reserve Bank seems to have wide legal powers for performing these functions.

2640. I am viewing it from an ethical as well as from an economic point of view.—Economics and ethics are interwoven to-day, aren't they? And economists are more important than politicians to-day, aren't they? We will take this question about present conditions in the market for exchange. I will tell you what happened quite recently. The banks have a ring. The gold mining houses have a preferential rate: they get one-quarter per cent. preference on condition that they don't interfere in exchange.

2641. (Dr. Vissering.) Are there no others?—They are always the one way. The diamond companies are free. They are operators in exchange.

2642. (Professor Kemmerer.) Don't they deal with the banks?—They take as much as they can outside.

2643. They are in a position to defy the banks if they wish to?—I would not say that, but they do it.

2644. Is it true, as has been claimed by some witnesses, that if a merchant wishes to buy drafts on London and finds that some exporter has credits over there which could provide the facilities for the purchase by him of drafts, and if he goes to this exporter and says: 'You have exchange to sell, and I want to buy drafts, would there be a deal?—Again, I would not say that there wouldn't be a deal; but the exporter would want the facility of the Reserve Bank, and the Reserve Bank wouldn't deal in exchange.
Let us get together and split the difference, and avoid these heavy bank charges, or part of them”; is it true that as soon as the bank finds out that such a deal has been made they are quite likely to say to this merchant when he comes to them again for a loan or for accommodations of one sort and another: “We are sorry, but you can’t expect us to give you accommodation if you insist on buying your exchange from outside sources”?—Well, bankers are very human; and personally I know of no case. The bank knows that I deal in exchange, and the bank has never worried me about the fact.

2645. But that is your business: it is a part of your business?—It is a part.

2646. Suppose you were not a broker, that your business were manufacturing, so that you could not put up the excuse that that was really part of your natural business, then what would they do?—I know of no instances.

2647. You have heard such complaint made, haven’t you?—Not in quite the same form. For instance, a merchant may have to remit £50,000, and has only got £25,000. The bank objects to his borrowing the £25,000 and then giving the £50,000 to someone else who quotes a better rate. That I think is quite natural.

2648. Haven’t you heard of any complaint among merchants that the banks discriminate against them in regard to accommodations if they effect their exchange operations outside the banks?—No.

2649. We have heard of a number of complaints of that kind?—I can only speak of my personal knowledge. I have no recollection of having heard such a thing, though I can imagine it. Now, when Sir Henry Strakosch was out here last, he had a great idea of the mining houses denouncing this ring among the banks, and going on a free exchange. And he asked me if I would act as broker for the mining industry, to buy this exchange for them. He offered me very attractive terms as a broker, as it meant a large business. But being a Scotsman, I had to point out that the proposition was idiotic, was a foolish proposition. They had overlooked several considerations. I asked them how much they would like to be assured of each month, of exchange. They said 10 per cent. Now, the mining houses want 3 millions per month. That is the requirement in exchange in Johannesburg. They wanted me to find out if I could buy £300,000. and then they thought of denouncing this agreement with the banks. They gave me as long as I thought necessary to find out the amount of free exchange there was in Johannesburg. It took me about six weeks. The merchants and importers, who would be sellers, were very decent to me, and showed me all their remittances so that I may say, I got a very clear idea of the amount that I could buy. The total amount was £500,000.

2650. What did these gold mining interests want funds here in South Africa for?—Wages, stores, dividends.

2651. With the establishment here of the mint, isn’t this difficulty, so far as they are concerned, to a very great extent eliminated? They ship to London such gold as they want to sell in the London market. To the extent that they wish funds here both to buy supplies and to pay wages, they take their gold to the mint, or they sell it to the Reserve Bank, and receive here the sovereigns or their equivalent in Reserve Bank notes. If they should take a great deal more gold to the mint here than is needed by the country for circulation purposes, that gold would become relatively redundant, and would flow out of the country in the ordinary course of trade, i.e. be shipped out by the banks. The Reserve Bank would then say: “Here, don’t bring any more of this gold to us in the form of bullion for minting purposes. Ship the bars and draw against the resulting exchanges, and we’ll buy the bills and give you the notes for them”—Excuse me interrupting you: Why shouldn’t they give gold certificates against the bars?
2652. Not gold certificates. Let me put it in simpler form. Why can't the mining industry here in the future get all the sovereigns it wishes for buying supplies and stores and paying wages, simply by the process of presenting such gold as it wishes to the mint, or to the Reserve Bank, and demanding coin for it?—There is no reason why they should not do so.

2653. In the future it will not need to sell bills at all if it doesn't wish to, unless the rates are more satisfactory than the rates at which they can have the bar gold coined?—Yes, I think it would be much less expensive for the country, if the Treasury exercised its power for the Reserve Bank to issue gold certificates, which is the legal tender of this country.

2654. Why gold certificates?—Against bullion.

2655. Why not Reserve Bank notes?—The gold certificate is legal tender.

2656. So is the Reserve Bank note?—I think not. It has one exception.

2657. It is legal tender for all payments except payments by the Reserve Bank itself. The Reserve Bank itself could not be permitted to pay its notes or its deposits in other notes?—Yes, well, there is no reason at all why you should not pay out either gold certificates or Reserve Bank notes against bullion, because you have got that power, in which case you would place it in the same position as America, which I consider is advanced. It is an evolutional movement. Now, I am a sort of economist to the Chamber of Mines, and they generally come to me with these questions. They brought that question to me about a month or two months ago—the question of minting this gold. I said "Don't be foolish, ask the Treasury to exercise its powers under the Currency and Banking Act, and issue gold certificates against bullion and save the cost of minting and save the danger of placing gold coins into circulation." That is to say, the Currency and Banking Act is a sort of compound of the American and British system. It is neither one thing nor the other. They have got a mint and they have the powers to issue notes against bullion. They have got both. Now, for some reason the Treasury refused to exercise their power to do so; whether it is to demonstrate that they had not been exceedingly foolish in establishing a mint at all, I don't know. But they refused to exercise that power which undoubtedly they have got.

2658. (Mr. Middleton.) But there are practically no gold certificates in active circulation?—You can get them.

2659. They are inconvertible like Reserve Bank notes and are superfluous?—I can demand them, can't I?

2660. Yes, but at the end of September, out of £10,358,568 outstanding, only £439 was not in the hands of the banks?—No one bothers about them.

2661. Then why go to the expense of printing them?—It is far cheaper surely to issue notes against them than it is to go and coin gold and put it in circulation; and there is a great risk of getting into trouble. That is the simplest solution of the lot. to do as America does: issue your paper against the bullion.

2662. (Professor Kemmerer.) We do either one in America. We issue notes against gold coin. Anybody can bring gold bullion in unlimited quantities to the mints and get it coined, or anyone can sell bars to the Reserve Bank at the market rate for standard gold bars, which is a fixed thing, and the Reserve Bank will pay for the gold in Federal Reserve notes. The gold certificate here, as in America represents 100 per cent. value in gold. That gold in America may be gold coin or gold bullion. To the extent that those certificates just lie in the vaults of the banks, they might pretty nearly as well be gold coin or gold bars. To the extent that they go into circulation, they displace Reserve Bank notes in circulation and constitute pieces of paper carrying 100 per cent. reserve in place of pieces of paper that only require a 40 per cent. gold reserve, thereby making the currency more expensive and
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thereby lessening materially the profits the Reserve Bank might realize, a considerable portion of which under ordinary circumstances would go to the Government?—Yes.

2663. I regret to say that our time is limited this afternoon to an hour and a half. So we will ask you to develop your main points in such a way as to enable us to get over the subject in the time limit. What we want from you is your message. We want the main points that you think this Commission should consider in connexion with the solution of the problem that has been submitted to it.—Yes, I understand. My anxiety is as to the future. This country has got an industry which, in the nature of things, is a wasting one; that is, the mining industry. It will have gone beyond its best certainly within ten years' time.

2664. You feel pretty certain of that?—Yes.

2665. I was talking with a prominent mining man a few days ago, and he had quite a different opinion?—Well, I am going, anyhow, on the theory that it is a declining industry, which must have its place taken by other industries. But I wish to draw the attention of the Commission to this very important fact which I have not seen stated before. It is this: That the revenue of the country from the mining industry amounts to, say, 42 per cent. of the whole. Don't forget this: It costs nothing to collect, practically speaking; and if it is to be replaced by other industries the costs will be infinitely greater than they are from the gold mining industry. That is a very important factor. The cost of collecting the balance of the revenue which is not derived from mining sources is very great.

2666. Do you know what the percentage cost is in collecting this revenue from the mining industry?—I would not venture to express an opinion on that. Anyhow, it is much cheaper to collect from the mining industry than if its place were taken by other industries. Then during the next ten years the country will have to show what it has done with the vast sums that it has borrowed. Its debt at the end of the current financial year will perhaps amount to 220 millions, of which something like 140 millions is repayable in sterling.

2667. Isn't the bulk of that a productive debt? That is, doesn't the bulk of it represent investments in productive enterprises?—I am very doubtful of that, because the mainstay of the whole of the railways is the mining industry. And then this country differs in its whole system from America, for instance. You floated your railways at the beginning with European capital. I think I saw one of your professors state that England alone invested 500 millions. That money was entirely lost, because these railways went into the receiver's hands.

2668. I doubt very much the latter part of that statement. Some of the railroads did; other railroads proved very prosperous?—It is very small, but how small is a matter which you could get from the revenue authorities, and also a comparative statement of what it costs to collect the balance.

2669. The money for these railroads was also borrowed in Europe largely, was it not?—Yes. But it happens that between the years 1930 and 1940 there are heavy maturities of these loans. I have brought you a Stock Exchange list so that you can just look for yourself to see the dates: 1929-39, £1,149,000; 1929-39, £26,000,000; 1927-32, £9,000,000. Then there are other loans bringing it up, I think, to about £45,000,000.

2670. Your railroads are being administered now with the object of paying expenses, are they not?—They are supposed to be conducted on business lines, but in reality they are a taxing machine.

2671. The money for these railroads was also borrowed in Europe largely, was it not?—Yes. But it happens that between the years 1930 and 1940 there are heavy maturities of these loans. I have brought you a Stock Exchange list so that you can just look for yourself to see the dates: 1929-39, £1,149,000; 1929-39, £26,000,000; 1927-32, £9,000,000. Then there are other loans bringing it up, I think, to about £45,000,000.

2672. Here is a table in the Union Year Book, which shows the maturities in London during the next few years to be as follows:
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1925, £3,000,000; 1926, £41,000; 1927, £304,000; 1928, £2,000,000; 1936, £8,000,000; 1937, £2,850,000; 1939, £3,611,000. Those are the amounts payable in London. In addition, there are certain amounts payable in South Africa. What is the bearing of this fact upon our problem?—My fear is that unless there is great expansion in the primary industries of this country, we shall have difficulty in meeting our engagements, in which case it does not matter whether you are on the gold standard or any other standard, your question of credit arises. And, so far as I remember, the Brussels Convention laid it down that it was necessary before you return to the gold standard, that your revenue and expenditure should balance; in other words, they put credit before everything.

2673. I suppose the point of the Brussels Conference was that a country which has having a deficit continually would have difficulty in maintaining a gold standard. It would equally have difficulty in maintaining a stable currency or any other standard. A country that spends more than it receives in revenue obviously must borrow money to make up the difference. And if it continues to spend more than it receives, it must keep borrowing more and more money, and the bigger its indebtedness becomes and the poorer and poorer its credit. Sooner or later it must reach the time when its credit will be so poor that it will resort to paper money in order to meet its obligations. And at that point it endangers the gold standard or any other stable standard. But these maturities here, as nearly as I can see, the bulk of them, don't come for a good many years, and the presumption is that England will be back on a gold basis long before these items become of any considerable importance if England carries out the policy of the Cunliffe Committee Report?—Yes. Then that comes back to this point, that nothing should be done to interfere with primary producers. If you take one typical case, the Natal wattle industry. I am also a grower of wattles myself. The wattle industry of Natal has had at least three factories established for the making of wattle extract. Two of these factories have closed down. The principal reason has been owing to the depreciation in the Argentine peso, making it possible for the Argentine to land wattle extract on the London market cheaper than South Africa.

2674. The Argentine peso has stopped depreciating, and is now appreciating. If depreciation hurts you, appreciation ought to help you?—But unfortunately this appreciation of the peso has been accompanied by an increase in the South African rate of exchange, so that the wattle extract company gets no relief from the reduction in the cost of imports, which, theoretically, it should have. This puts it in a worse plight to-day than it was before.

2675. No matter what currency you are on, if a depreciating currency gives a certain temporary stimulus to your export trade, then, if some other country with which you are dealing, or if some other country which produces a product which competes with your products in the market, has a currency that depreciates more rapidly than your own does, you will always suffer that disadvantage. You cannot control the currencies of other countries very well, unless you bring your influence to bear to get them all to adopt the same standard?—That does not quite meet my argument, with due submission. I am a cotton grower. I ship my cotton to the London market. I have to deduct from that 3½ per cent.; really it is more, because cotton bills are generally 90 days. The fellow in Egypt competes with me in that market. He delivers it, gets exactly the same price, but, instead of being charged 3½, he is charged one-eighth.

2676. But your pound here is now worth more in its purchasing power, as compared with the pre-war level, than the Egyptian pound is. We have the index numbers of prices in Egypt and the index numbers of prices here, and all the evidence we have goes to show, if you get 3½ per cent. less pounds than he does, you get in purchasing power considerably more than he does; and, after all, the only thing a pound is good for is to buy goods or...
services with, or to pay debts with. And your pound is more valuable than his for those purposes?—I cannot see that it is, because we have the same amount of sterling in London and if I want to buy in London I can buy exactly the same amount as he does and bring it out. So where does the South African pound gain me anything? It gains me nothing. He is able to buy more than I am actually.

2677. To the extent that you buy things here, you get a great deal more. And if you have £100 here and you want to transfer it back to London, your £100 is worth, roughly speaking, £103½ in London?—Take this cotton case again. He gets £100 in London, say. He is able to buy with that £100 worth of commodities, which include fertilizers, for instance, for his cotton. I can buy exactly the same amount with that; so that, as far as sterling in commodities is concerned, we are on an equal footing, but I am subject to a reduction of the difference between one-eighth and 3½ in actual practice.

2678. I don't see why. You both get £100 in London. You both can buy for that £100 the same things to the extent that you spend your money in London; you get the same amount of fertilizer. But you buy your £100 in London for, say, 96½ South African pounds, and he buys his for £100 in Egypt. To the extent, on the other hand, that South Africa sells its pounds sterling in London in order to get pounds here, it gets 3½ per cent. less pounds here, but they are worth 3½ per cent. more in gold and more in purchasing power?—That may be so, but I have seen the reports, for instance, of the Bank of Egypt and others, that their going on the Treasury bill system had no effect on prices.

2679. In that case I would differ from those gentlemen?—Supposing we accept your statement, then there is one important matter of fact. That since October, 1914, when the Egyptian currency was definitely linked up with sterling there has been no fluctuation whatsoever, which has been an enormous gain to Egypt. I suppose you agree that stability is the great thing in an exchange. Now, it has been stabilized within a fraction of parity from October, 1914, until October, 1924.

2680. Yes, but the word "stability." like so many words used in economics, covers a multitude of sins. It is possible, for illustration, that Austria during the war, when she was deprecating her currency so rapidly and when she was tied up with Germany, might have had a stable exchange with the mark, but both of them were coming downhill so fast that you could hardly see them go by. Stability of exchange with one country with which you do business is one thing, but a country is also concerned with stability of exchange with other countries, and, most importantly, with the stability of the international purchasing power of its money. If you have a currency in this country that is tied up with sterling, and if sterling should romp downhill rapidly, then the value of your monetary unit within the country, as measured by purchasing power, or as measured by gold, assuming gold to be stable, would be depreciating very rapidly, and although you would be maintaining stability with sterling, every creditor of South Africa would be losing the great part of the value of his credits while every debtor would be gaining. You would be having a wiping-out of the value of savings, a wiping-out of the values of bonds, insurance policies, pensions, and so on. And you would be having all the evils of a rising cost of living, of a lagging wage rate, and of labour discontent. It is a question whether it is worth while to pay the price of a greater risk of a rapidly fluctuating unit of value for all internal purposes in order to get stability of exchange with one country?—It is of paramount importance to be on a parity with the money centre in which you settle your foreign transactions; just as Dr. Schacht, in his argument, said that it was on account of trade necessities that Germany should link with sterling.

2681. I knew Dr. Schacht well in connexion with my work with the Dawes Committee in Europe. He was favourable to tying up with gold as soon as he could. The law as passed provided for tying up with gold except in case of emergency. Germany has now
practically tied up with gold, because its currency has been practically stabilized with gold for some time, and the Reichsbank is now accumulating large funds in New York for maintaining the parity?—Large funds yielding interest?

2682. They are accumulating them there for maintaining their parity with gold. To what extent they are deposited at interest and to what extent they are in the form of earmarked gold or are kept in the Reserve Bank, where they get no interest. I don’t know?—But I argue that this country must, to save its credit, do everything that is possible to increase its production of the primary products, which necessarily involves that there is no deduction on account of the exchange rate. It also places heavy charges on the import of capital into this country, and London is the principal source from which we get capital. It is the volume of production which we are concerned with; and the medium of exchange is a secondary consideration.

2684. If you borrow in England at a time when sterling is considerably depreciated in terms of goods and in terms of gold, and if sterling there turns around and comes back, you would be borrowing cheap pounds, and you might be compelled to repay the principal in a dear pound, which might be a serious burden for this country. If, for example, you had borrowed sterling in England when the pound was down to about 3½ dollars, American money, and if when you paid it back the rate was 4.86 dollars, assuming gold to have been reasonably stable in value in the meantime, you would be incurring a tremendous extra burden on the country?—If I am correct, economic laws are immutable, are they not?

2685. Yes, if we understand them. The trouble is that most of us don’t understand them. I suppose if we could get a real correct statement of the law it would be immutable?—(Mr. Greig.) In the opinion of Mr. Hawtrey, at least, these laws are immutable. Why does he say this: “An economist should be able to say, ‘I told you so,’” because it is obviously impossible to be able to say, “I told you so” unless you are working with laws that are immutable. Isn’t that logic?

2686. Laws may be immutable and yet we may be very far from understanding them. It seems to me in the case of all economic phenomena, we are dealing with a great complex of laws. Here is one line of economic forces; there is another, acting and interacting. Now, if we knew all the forces that were at work, if we were able to weigh them, then we would be able to predict what would happen. But economic science, while it can explain a great many things that are happening and understand many of these fundamental forces, is not yet in a position to disentangle completely any of them. And, furthermore, these matters are quantitative matters. It is a question of weighing forces, and our statistical information and other types of information are, at the present time, altogether too meagre to make it possible to predict just what is going to happen. The surgeon cannot predict just what is going to happen; the medical man cannot predict just what is going to happen. In no science can they predict with absolute accuracy. Astronomy has reached a high degree of precision; but even here we have Einstein coming in and casting doubt on a lot of so-called laws that have been almost universally accepted for many generations?—And Bergson also. In 1920 I took up this attitude when gold stood at £3. 17s. 6d. I strongly
recommended then, when this Currency and Banking Act came before Parliament, that they should link up with sterling and realize their gold. That, of course, appealed to the public. It doesn't appeal to you. The main thing was this, that they had done so, and had they sold their gold, and had they brought their currency to par, which they would have done by adopting the Treasury bill system, it would have made a difference to this country to-day of 11 millions roughly.

2687. (Dr. Vissering.) In the case of Sweden, they were on the other side. They have made big losses—Of course, the supposition was that these were all invested in British Treasury bills. Now, if, as I say, we cannot return to the gold standard before Britain, and yet we believe that Britain is ultimately going on a gold standard, you do assist the finances of the country by holding British Treasury bills yielding interest and not gold; you agree with Professor Gustav Cassel, who is a Swede, that gold held immobile in reserve has no effect on credit.

2688. Why don't the banks bring them back?—It is not only a question of the banks; it is a question of the individual too. The mining houses, for instance, keep themselves short, and only draw their bare requirements at the present rates of exchange; so their balances continue on the other side.

2689. (Professor Kemmwer.) They are speculating for a rise in sterling in that case?—They wait for chances. It is speculation.

2690. When they were doing that in 1923 they got burnt pretty badly. You can always speculate if you wish to—the premium on the South African pound, mind you (there is this serious trouble about it), is fixed arbitrarily by the banks.

2691. They claim it is fixed in view of the "trade conditions," whatever that may mean?—Yes, I don't know what it means, nor do I profess to understand what it means.

2692. We don't either—But there it is, owing to this arbitrary rate, balances are kept on the other side. They might wish to establish a money market here—this was one of the objects of the Reserve Bank. They said a money market was the natural accompaniment of a reserve bank. Well, I attempted to form a money market eight years ago, because I thought the Government was paying too much for its borrowing.

2693. (Dr. Vissering.) Borrowing abroad, or borrowing here?—Here, I thought it would be possible to establish a money market in Johannesburg, and to begin with to utilize Government Treasury bills. And I went round to the various mining houses and big merchants, and they had very large accumulations that they were prepared to utilize for that purpose. That has all disappeared. You get no balances this side. First of all the premium itself is a temptation to remit, and they don't draw more than their bare requirements; so that the country for its credit depends on the commercial banks. For its business credit it depends on the commercial banks. When there was an actual stringency, as occurred perhaps, I should say, two years ago, speaking roughly, we brought in money, but the stipulation was that we must keep that money for a certain period, otherwise it did not pay them to bring it in. They had to pay the cost of heavy transfer. Now one of the biggest factors we have got in this country has been ignored so far as the cost of production is concerned. I have been waiting for years to see the thing brought forward—the rate of discount which is charged in this country by the banks. I was reading something about the Bank of Java. I understand there that their principal products are sugar and rice.

2695. Sugar and tea; rice also to a certain extent?—There are companies whose share you can deal in. 'I think I am correct in saying that.
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2696. Yes?—And I saw that the Bank of Java advanced against these rice and sugar shares at the rate of 4½ per cent.

2697. About that, yes?—They intended to raise it to 5 per cent., which they thought was desirable. Anyhow, it was 4½ per cent. In this country the safest security you have got is a gold mining share. It is the principal industry in the country. Does the Commission wish to know what is charged by the banks against that? It is 7½ per cent.

2698. (Professor Kemmerer.) I would like to say in that connexion, I am wondering if one of the reasons why your rates are so high here is not the fact that you have an unstable and fluctuating currency. Let me give you a little experience I had last year. I was in Colombia, in South America, as chairman of a Finance Commission down there. Colombia had been on a paper-money basis for some time, and you could buy bonds there, very high-grade bonds, gilt-edged, payable in British sovereigns, secured by mortgages of twice the value of the bond, and yielding a return of 10 and 11 per cent. One of the reasons given for that was the fact that Colombia had been having serious paper-money fluctuations and disturbances in the past, and people were afraid of the finances of a paper-money country. Well, while we were there we put a reserve over on the gold standard, and the assumed gold payments. We established a central bank, and this central bank started at a rediscount rate of 10 per cent. for rediscounting the paper of other banks. Within a year's time, after she had got to a gold basis and had stabilized her currency, they were rediscounting at 7 per cent. One of the main reasons for that, as generally understood, is the fact that Colombia went ahead, reorganized her finances, stabilized on the gold basis, and certainty was brought where there had been uncertainty before; and people were willing to lend money at lower rates of interest. People were willing to bring money into the country at lower rates of interest, because they felt they were going to be repaid in a currency as valuable as the one which they loaned?—Yes, I quite follow your argument. But the rate has been the same under the gold standard as it is to-day; in fact, it is rather lower to-day than it was under the gold standard, when there was a free market in gold. I don't think that is the real reason at all. The real reason is this—it is a thing that is usually understood to be the reason: When you formed the Reserve Bank there was a good deal of feeling in the country, a good deal of political feeling in the country against the commercial banks. They accused them of advancing too freely, which they did, of raising the cost of living in consequence of that, which was quite likely. Therefore, there was almost a vindictive feeling against the commercial banks at that time. They took away from them their note issues; that was in 1920. They compelled them to place a very large amount with the Reserve Bank on deposit, for which they received nothing. I think the total was about five millions, which yields nothing.

2699. (Mr. Middleton.) Gold reserves in the banks' own vaults would not earn interest?—But they have a bigger margin to play with if you like. There is more elasticity if they have it in their own possession as far as the commercial banks themselves were concerned.

2700. (Professor Kemmerer.) That was one of the great arguments in this country and in the United States that it increased the elasticity?—Yes.

2701. Any bank here that has funds on deposit in the Reserve Bank can draw those funds out just as truly as it could draw out of its own vaults. In addition to that, it has the power of rediscounting. One of the main objects of the reserve bank system is to give increased currency elasticity?—Now, there is an important consideration involved in that. First of all, it is against the principle of British banks to rediscount. 2702. You know what happens. While these joint-stock banks don't rediscount, they call in the funds owing to them by the brokers and discount houses, and they in turn, borrow from the
Bank of England, so it amounts to the same thing?—The real
problem in this country is not that there is stringency, because
there always has been an excess of credit available in this country
through the commercial banks. That is my experience of thirty
years. The banks have a great deal of difficulty in finding sound
investments. Under the gold standard, up to the Great War, till
quite recently, the only way they could deal with funds was by
lending them out in the London market.

2703. Some of the bankers that have been before us have told
us this very thing that you are saying, that they have more
funds than they can safely invest in South Africa, and that the
rate they charge has to be high because of the risks involved; and
these risks are in part due, it seems to me, to the great fluctua-
tions you have had in exchange and to the uncertainties of the
future exchange situation?—I would differ. I say that the banks
are in a position to exact these rates, and they do exact them.
There is no competition. So that, if the Reserve Bank is to take
the field for the benefit of the country as regards the rate of
interest for legitimate enterprise, it can only do so by becoming
a bank of exchange.

2704. One of the banks has been borrowing very heavily from
the Reserve Bank, has it not?—Yes, but you don’t settle exchange
by borrowing any more than you settle an ordinary debt. It is
postponing the evil.

2705. We are speaking of the plentitude of funds here. Some
of the banks have big balances abroad, and plenty of funds that
they could lend out. Other banks have not had a plentitude of
funds, and have been compelled to rediscount here extensi-
vively to meet the demands made upon them?—The National Bank has been
unfortunate in its banking, but its ambition is, I have no doubt, to
get back to the position it was in.

2706. I would like to take up one point in regard to this
interest rate. You say the interest rate was high in the gold
standard days?—Yes.

2707. And it is high now?—Yes.

2708. Isn’t it true that since the Cunliffe Committee’s Report
came out, there has been a pretty general expectation that, in
the reasonably near future, sterling would come back to gold
parity?—Within the near future? I should call ten years the
reasonably near future?

2709. Don’t you think people generally expected that sterling
would get back to parity before the end of ten years?—I don’t
know that they did. They thought the result of the Dawes Report
would have brought it instantly to parity. That is the sort of
wild idea they have.

2710. Early in 1923, you had sterling exchange within about
3½ per cent. of parity?—Yes.

2711. According to the reports that we got from the European
financial Press in America, there was a pretty wide expectation
that sterling, having got up there, would be stabilized compara-
tively soon. Then the exchange went down from an average rate,
we’ll say, of 4.69 in February, 1923, till it struck about 4.26
in January of 1924, which was a tremendous depreciation?—Yes.

2712. South African exchange followed it more or less loosely.
Then the exchange turned around and started upward, and it
has been going upward throughout most of this year. It has
advanced from about 4.26 until I see by this morning’s paper it
is 4.71. There is a very big advance. It seems to me that people,
pretty generally, have been expecting sterling this year to con-
tinue this process, and in the very near future to get back to
parity, in harmony with the Cunliffe Committee plan. If you are
borrowing a money that is appreciating rapidly in value, if you
were borrowing sterling, for example, in January of this year,
you have been getting a pound sterling worth 4.26 dollars gold.
If you were repaying that pound sterling to-day, you would be
paying back a pound sterling worth 4.71 dollars gold; so you
would be paying not only interest, but a tremendous increase in
the capital value, as measured in gold. If there were any considerable expectation of such an advance, and if there is any considerable expectation of a further advance now, one can readily see why people having sterling would be very delighted to lend sterling, and why people in other countries would be quite inclined to buy sterling, because, if they bought sterling, they would be buying an appreciating commodity. If a man lent sterling when it was worth 4.26 dollars, and received his payment when it was worth 4.71, he would be making a beautiful speculative profit in terms of gold. Such a prospect tends to influence the money market in increasing the supply of sterling that is thrown on the market for lending purposes, and in decreasing the willingness of people to borrow sterling, therefore, in increasing the supply and decreasing the demand, which together tend to push the discount rate for sterling loans down, and make them lower than the discount rate would be for gold loans, or for loans on any stable currency. That is apparently what has been happening. On that basis you would expect the discount rate on London now, and the discount rate here now, and during the past year, to be considerably lower than it was during the days of the gold standard. If it were not lower, the debtor has been taken advantage of very decidedly?—Yes; well, you have got to recognize that these are the facts. There are the rates. I saw a fellow the other day who discounted a bill in the country here at the rate of 4½ per cent. It was what bankers would call a prime bill. But the trouble is this: that the Reserve Bank has got no control whatsoever over the rates of interest. They are entirely in the hands of the commercial banks.

2713. Should not the Reserve Bank come in and exercise a control over the rates of interest and exchange?—I would give it the power.

2714. It has the power now?—I would give it the method then.

2715. It is up to the Bank to organize its own method, is it not? It has the power.

2716. (Dr. Vissering.) They have lowered the interest rate already to 5½ per cent.?—It is not effective.

2717. The first bills have come in?—It is not an effective rate of discount.

2718. Not yet?—There is no money market.

2719. (Professor Kemmerer.) They are only beginning with it; if their rates were at the same level as the commercial banks' rates, there would be no reason for the public to go to the Reserve Bank?—No, but I would give the Reserve Bank the right to accept Imperial Treasury bills in lieu of gold, to be on what I call the gold basis.

2720. You would take this 40 per cent. they are required to keep, and put it all in Imperial Treasury bills?—Then you would bring your exchange to parity.

2721. But you cannot redeem your notes in Imperial Treasury bills?—Your note issues then become a barometer of trade: they rise or fall with the demand on either side.

2722. They might very well become a barometer of British credit?—It does not follow at all. They have nothing to do with British credit.

2723. If Britain should get into difficulties and should greatly increase the supply of Treasury bills and should also depreciate further the pound sterling, then the value of your South African pounds here would represent the condition of British credit?—You are assuming, then, that this country's credit is greater than Britain's.

2724. I am assuming the possibility that Great Britain being in Europe, with all its entanglements, might have her credit prestige weakened by forces which would not materially affect South Africa's currency if she were squarely on the gold standard? That question, then, applies to every quarter of the globe. They have got to take the same risk.
2725. That is one of the reasons why gold is safer than Treasury bills in any country?—The thing that is of importance is meeting our engagements.

2726. Nobody here that I know of is arguing now in favour of holding gold immobile in reserve. The question is, shall you use this gold to return to the gold basis, or shall you not? I agree with you entirely that to hold gold in a reserve and to refuse to use it does little good. Thus hoarded, it only performs two services: if you were expecting very soon to go back to the gold basis it would be all right to gather your gold and hold it for the time when you were to return to gold convertibility, because if you should dispose of the gold now and substitute for it Treasury bills, or anything else, in order to realize a temporary profit, there would probably be very heavy political pressure against going back to the gold standard. The Government might well be again disinclined to give up such a source of revenue after it had once incorporated it into its annual budgets for a while. Furthermore, if you should later want to buy your gold back, you might have to buy it back at a very high price. In the second place, a country like South Africa, whose principal product is gold, puts itself in the position of depreciating the value of that product if it dumps its reserve gold on the world’s market and encourages other countries to do the same. If the whole world during the war period, instead of tying up gold in the vaults of the banks and holding it immobile, had said: “We will dump it on the market and get the best price for it,” gold would probably have gone to such a value that every mine in this country would have stopped operating. Then, when they wanted to get back to the gold standard, they would have had to turn around and bid up its price, with the result that there would have been such a jump in the value of gold as to disorganize everything? Yes; but you seem to have missed my argument. The only possible use we can have for gold is when it lies in London for settling our foreign business. This is really a domestic currency between here and London. It is not like a foreign currency. In any case, the tendency, I think you will agree with me, is, I think, for all those countries which are endeavouring to place themselves on a solid basis to economize in every direction, even in the use of gold.

2727. To the extent they do that, it is very unfortunate for South Africa, I should say?—Yes. The thing that we, as shareholders in the mining industry, and speaking on behalf of the mining industry I may say it, are afraid of, is Great Britain going back prematurely to a gold standard—unless Britain waits until she knows that under any conditions she will be able to stand the strain which may arise, having a sufficient gold reserve. How is she ever going to know that under all conditions she can stand such a strain. No country in the past ever did, and I don’t believe that any country in the future will?—We must know when England goes on the gold standard there will be no question of inconvertibility. It only gives additional weight to the argument of Keynes and others that the gold standard is unreliable. The gold mining industry depends to-day solely and simply on the belief that gold will be for all time international legal tender.

2729. Before the war, was Great Britain, or France, or Germany positively assured that, under no circumstances, would the gold standard break down?—France was on the silver standard. France, I beg your pardon, had a gold standard?—She was on the limping standard.

2731. (Dr. Vissering.) The same thing as with us.

2732. (Professor Kemmerer.) The limping standard is a form of the gold standard?—Anyhow, that is the real question.

2733. I would like to follow this question up. You say she must know positively that there is no chance of the gold standard’s breaking down. Were these countries before the war positive there was no chance of the gold standard’s breaking down? Many of them had been on the gold standard for generations. Were they positive there was no chance of its breaking down? If they
were, they were wrong, weren't they?—Yes, I admit that. When I say positive, I mean so far as it is humanly possible to be certain. In our interest they must wait for that period to be reached, or it may do grave injury to us.

2734. The argument, then, is that she must be reasonably certain she will be able to maintain the gold standard? Great Britain in 1913 had gold in the vaults of the Bank of England to the amount of about 35 odd million pounds sterling as I recall. When I came away from the United States I looked up the amount. She has now several times over the amount in the Bank of England that she had before the war?—You must also take into consideration its ratio to the superstructure of credit.

2735. Certainly. But there is no gold in circulation now. Gold in hand-to-hand circulation does not go very far in maintaining the parity of bank-notes, and the probability is strong that she will never again have anything like so much gold in active circulation that she had before the war in proportion to her population?—My simple proposition is this, that the South African Reserve Bank should be converted into a bank of exchange by giving it the authority to use British Treasury bills in lieu of gold, in which case your exchange will come to parity.

2736. Parity with sterling?—Parity with sterling.

2737. And then it would have to follow sterling up and down?—That does not matter, because we are going on the assumption that sooner or later Britain will go on the gold standard, when everything will be equal.

2738. She has been ten years off it now?—That is our hope.

2739. (Mr. Middleton.) The Cunliffe Committee Report has been in suspense for the last 18 months?—I don't mind that. We are linked up with sterling. We will sink or fall with sterling.

2740. (Professor Kemmerer.) You would follow sterling, no matter how far down sterling should go?—It doesn't matter to us.

2741. You have been going through a period of very vigorous deflation during the last few years. You have suffered all the evils of deflation. Your idea is now to undo all that and to inflate again and follow sterling wherever it goes?—We are bound up with her. It does not matter where she goes. If she depreciates, of course, we reduce our debt in sterling; and the question of whether we are going to be able to redeem the debt in sterling is of paramount importance, I told this Commission that the real danger was that, in the future, South Africa would not be able to meet her engagements in sterling. I want to remove every obstacle which interferes with the growth of the great primary industries of this country.

2742. If your main object is to pay off your sterling debt cheaply, the thing to do is to do everything you can to deflate in South Africa and to have sterling inflate. I don't think that policy would be generally looked upon as a very wise or very ethical thing to do; and, furthermore, while the country gains as a sterling debtor, every sterling creditor would lose, because he would be paid back in a much less valuable monetary unit than he expected to be paid in when he loaned his money, and probably in a less valuable unit than he loaned?—I am arguing on ethical grounds as well.

2743. It seems to me that that would be rather an unethical thing to do?—We are practically on a parity with the pound sterling to-day and with gold.

2744. You are nearer parity with gold than you are with the pound sterling?—If you go on the gold standard you may make lots of these industries unpayable in the event of Sterling depreciating.

2745. We haven't seen why yet. That is what we are looking for. Light as to why?—Take some of these low-grade mines to-day: at to-day's position they are nearly vanishing through a loss on the premium.

2746. Has there ever been a time in the history of this country, or will there ever be a time, when there are no low-grade marginal
mines. And isn’t it true that sooner or later every mine you have is going to be a marginal mine?—Yes.

2747. If you act on that philosophy, you will always be carrying on your financial administration in this country under the aegis of marginal mines, which you will always have, and which will continually be different mines?—Then you must also take this into consideration, that the price of credit in this country is a very important factor. There is some relation between the price of money in London and Johannesburg. You allow people to bring money freely into this country in the knowledge that in six or twelve months the price which they will have it repaid in is known.

2748. Also in the knowledge that when the time of repayment is due it may be repaid in a much less valuable money than was borrowed. I don’t believe many people in other countries want to invest their funds in a country with a widely fluctuating exchange. It has been found in the United States, in the Netherlands, and in a great many other countries, that when you stabilize your currency on a gold basis you attract capital which belongs to people that want to play safe in making their investments to that country?—Yes. Well, our experience has been this: when sterling was recently up to 15 per cent., the people who bought dollar securities are faced with very serious losses to-day.

2749. How?—Now the dollar is down again.

2750. That is only a nominal loss. Their dollars have practically the same purchasing power over goods to-day that they had one, two, or three years ago. It appears to be a loss, because you are measuring values in an entirely different pound than you did before?—Yes.

2751. Your pound has been appreciating. If you bought pounds with gold a year ago and sell the pounds now for gold, you would make a profit. But if you bought pounds two years ago for gold and sold the pounds a year ago for gold, you would have suffered a loss. It is speculation?—Yes.

2752. (Dr. Vissering.) In our country foreigners invested in guilders because they had confidence in guilders, but our people invested in dollars because they had no confidence in our own guilder. They were losing?—They are losing heavily to-day. Now, I think the extreme point reached in 1920 was 81 per cent., and all the way up there was an increasing desire to sell South African currency. When the premium was 8½ per cent., fixed by the banks, they reckoned here that the country lost about that time 20 millions, which never came back.

2753. (Professor Kemmerer.) £20,000,000 South African pounds?—South African currency.

2754. We want evidence of that?—You will find it in the Select Committee evidence.

2755. We are very doubtful about many of the figures that have so frequently been cited in this connexion?—They are only guess-work. You see the temptation people are in: a rich man came to me at that time and asked for a list of securities in London and the yields. Brazilian 4 per cent. Railway Recession stock was standing at 44 or 45 at the time. He cabled a big proportion of his money Home to invest in that. He got 8½ per cent. premium on his money. He got his security which he believed would rise. He also bought Transvaal 3 per cent., which I think were standing at 59. That money definitely left the country; and that is the tendency always, to sell in the belief that this currency is bound to come back.

2756. If you take the ups and downs of sterling in the last few years and the ups and downs of the exchange rates here on London, you can pick a number of times when it was a good speculation to sell South African pounds and buy sterling. You can equally pick other times when it was a very bad speculation to sell South African pounds and buy sterling. Whenever you are dealing with a fluctuating exchange you have speculators. Some of them guess right, some guess wrong. But we have seen no evidence yet, that is conclusive to us, that there was a big per-
manent exodus of capital from the country at that time?—I can only give you my own experience. I remember the banks stating the figure was 20 millions. Here is an important consideration, to show you how this thing works: The Government here issued credit certificates to German nationals. I think the total amount is in the neighbourhood of 11 millions. Now Germany, through Holland, has been a consistent seller of these custodian certificates. They are standing to-day at 79, that is, ex 2 per cent. interest. If the gold standard, for instance, was reverted to here, and there was a depreciation in sterling, you would find Germany and other parts heavy sellers of these custodian certificates, because it would pay them to sell, say, at 79, which would be on a parity with a similar 4 per cent. stock at Home, in order to get their premium in addition, and this country would be forced to absorb all these custodian certificates.

2757. At that price?—Well, they would force the market down, and that would bring down the price of Government securities. That brings down the price of all Government stocks. And that is what you have to face in this country if you go on the gold standard: you are subject to heavy depreciation in the value of Government stocks, and, therefore, a heavy increase in the rates of Government borrowing. That has to be faced.

2758. I don't see it. It seems to me if you stabilize your currency and bring a bigger element of security into it, you are going to be able to borrow on more favourable terms than you would if you had an unstable currency. I have just given you the experience of Colombia that, as soon as they stabilized their currency, the interest rate went down materially?—I venture to prophesy that, in the event of this country going to the gold standard, and there is any material depreciation in sterling, then all Government securities in South Africa are adversely affected; and it is directly due to that cause I have mentioned. That is clear, I think. If there is anything in economics, you must be able to say, "I told you so." You know, Dr. Vissering, the amount of stuff Holland has been selling on account of Germany. These custodian certificates have been coming out here in large quantities. The high cost of living makes it very difficult for people to accumulate capital, and, therefore, our object should be to reduce the cost of living.

2759. As far as we can see from the figures, your cost of living is, relative to 1913, lower here than in any other important country in the world?—There is one thing that is sometimes forgotten: this is not a homogeneous country. You have so many different classes. This Commission should really go into questions of fiscal policy. That is outside it. It should have to take into consideration the question of provincial deficits really to arrive at your exchange position.

2760. (Dr. Vissering.) Have you anything to say about the question of a State bank, of the possibility of creating a State bank here? Many people, we believe, are in favour of such an idea?—I think a State bank is altogether unnecessary.

2761. Here in South Africa?—Yes.

2762. For what reasons?—There is no stringency as regards legitimate credit. The commercial banks here are quite able to cope with the credit situation, coupled with the Reserve Bank, or without the Reserve Bank. On their own they are quite able. The trouble is that the country's population is so small that the number of clients that the commercial banks have to deal with is limited and insufficient.

2763. (Professor Kemmerer.) One of the arguments continually advanced to us for a State bank is that, in a country with these dimensions, having only two banks of importance, banks which get together and agree on exchange rates, and discount rates, and so on, you have a situation in which there is very little competition, practically a banking monopoly, and where the public does not have any protection against excessive charges. It is argued that either your Reserve Bank must come out and operate in the open market, compete with these banks and bring rates down to
a point that is reasonable, and break these monopoly charges, or, if it does not do that, that a State bank must be established to come in and perform that function in the interests of the general public. That is the usual argument?—Yes, I have heard it often.

2764. You don't think there is much in it?—I don't think there is any need for any more credit institutions. I think it would be unfair competition.

2765. If it were in the interests of the public, do you think so? The Bank of England has a very substantial part of the reserve money of England, and yet deals in the open market and competes with the other banks. It has often been criticized by the other banks for doing so, but this criticism has counted for little. Our American Federal Reserve Banks hold the reserves of other banks, yet they come out when it is in the interest of the general public and compete with the commercial banks in the open market for certain classes of paper. The attitude of the Government has been: "Such competition is necessary in the interests of the general public, and in order to enable the Federal Reserve Banks to function properly."—That is a different question, Dr. Vissering, from your plain one about the State bank. That is a question of converting the Reserve Bank into an active competitor.

2766. There is a widespread belief that if you don't do the one you will have to do the other. If the Reserve Bank does not come out and perform what the public believes to be its proper functions, then the public will demand that a State bank be organized and replace the Reserve Bank?—I would convert the Reserve Bank into a bank of exchange in the first place by the method I have indicated. That in itself would remedy the price of money, as far as that goes. But I would require to think very carefully whether I should say that it would be unfair, or not, to the commercial banks, because the commercial banks have been very badly injured already by taking away their note issues, and so on. I would take is as a last resort. If you thought the country was suffering from excessive charges by the commercial banks, then the natural thing would be to exercise the powers which have already been created for the Reserve Bank; not to start a new State bank. Is that an answer to the question?

2767. (Dr. Vissering.) Yes. But what do you understand by "competing"? Competing means that you are taking business away from other people, that you try to get as much business as you can, for the benefit of your shareholders. But that, of course, is never the duty of a central bank. The central bank has to enter the open market only in so far as it is necessary to do its public duty?—Yes.

2768. That is not competing?—No.

2769. They would be at certain moments in the same working field, but that is not really competing?—No.

2770. But simply to have a central bank as a reserve bank, for the other banks to fall back upon if it were necessary, that it should just be a bankers' bank, would be stupid in a country where there are only two banks of any size?—That you will find in Sir Henry Strakosch's evidence before the Select Committee. Profit earning was nothing at all to this Reserve Bank. It was to stand aloof and wait for the crisis to come.

2771. (Professor Kemmerer.) It must pay its expenses?—There is the record, where the profit earning was of no consequence. It was to be a banker's bank.

2772. If you read the law you will find that the law gives the Reserve Bank ample powers to go out and operate in the open market in normal times and to make its rates effective; in other words to perform its proper functions as a central bank, even if in doing so it appears to compete with the other banks. And it is the law that counts, not the remarks of individuals in hearings or parliamentary debates?—Yes. The absence of a money market itself, the absence of a proper bill system, and this cumbersome out-of-date overdraft system, all militate against the success of the Reserve Bank here. It cannot really perform its functions. It
Mr. David Crombie Greig.)

couldn't quote an effective discount rate. The only thing you can do is to make it a bank of exchange.

2778. Suppose it operates like the Bank of France or the Netherlands Bank or the Bank of Belgium, dealing only in high grade paper, issuing notes, acting as a banker's bank, but operating also with the public to the extent that it is necessary to conserve the public interests, protect the money market, and earn its expenses. Aren't those the proper functions of a Reserve Bank, if it is to continue to exist? Will public opinion permit it to exist very long if it does not perform those functions?—People are beginning to ask if it is not really an addition to the overhead charges of running this country. That is the question people are asking to-day. I say that it can't be made a useful institution unless it is turned into a bank of exchange.

2779. Gold, according to your testimony, is a commodity that isn't being used, and it would not be used if you were not going to make notes or deposits convertible into gold?—People might say for the sake of sentiment: "We'll keep these 10 millions here until we go back to the gold standard."

2780. I thought you were arguing that it was wasteful to hold 10 millions here in gold. That would not be productive?—I simply say, give the bank the power, if necessary, to hold Imperial Treasury bills in lieu of gold.

2781. (Dr. Vissering.) It would not be obliged to do so?—No. If he is a banker he will utilize that power. Then you will have control of the exchange. Then you will be able to start a money market here. Then you will have an effective rate. It must not be limited. The banks should not be asked to discount Imperial Treasury bills. The Reserve Bank should have the right to accept Treasury bills in lieu of gold and leave it at that. Then they have full power to accept any export bills you like. That is the true solution.

2782. You want to have it established entirely on the basis of gold exchange?—And then, of course, when London goes on the gold standard we are on the gold standard automatically. When Mr. Hirst was out here, I asked him this question: "Would it pay Egypt to go back to the old cumbersome method of shifting gold backwards and forwards to settle differences instead of continuing on the present system?" He did not answer the question.

2783. (Professor Kemmerer.) We had a conference in London with the former Financial Secretary of Egypt, and he explained the present Egyptian system. When we asked him the question whether he thought it would be wise for Egypt to follow sterling, if sterling should start to depreciate again, he was very reluctant
to take any such position?—For ten years she has remained in
perfect stability, which is, mind you, a good test. That is,
during the war and after the war.
2784. (Mr. Middleton.) She has no choice?—She is very rich
to-day. She is buying back her securities on the London market.
2785. (Professor Kemmerer.) As Mr. Middleton says, she has
no choice?—She is doing very well. The country is prosperous.
2786. (Dr. Vissering.) Do you consider the South African
pound and the English pound to be different currencies?—Yes, we
are different.
2787. Do you think it would be advisable to have another
monetary unit here, say, on the decimal system?—I don't think so.
I don't think people worry very much about these things out here.
They don't think or discuss economic questions. If you attempt a
discussion on this thing you have to send it abroad. I send my
things to Amsterdam very often, or to Paris, or London, because
you have no competent critics here on these questions. They
are all at sea. That is the real trouble. They don't study
economics in this country. They have just started an economic
society to try and develop a little interest in economics. Anyhow,
there is the position, that if you want to make the Bank effective.
link it with sterling, giving it the power to accept Imperial
Treasury bills in lieu of gold, and simply leave it at that. Do
nothing more, and the thing will right itself. There will be no
more trouble. It is a simple method.

Mr. Sybrand Abe Rissik (examined).
2788. (Professor Kemmerer.) You have devoted some time to
studying problems of exchange and currency?—Yes.
2789. Have you worked at all in this field in any bank, or had
any practical experience?—No.
2790. You approach the question from the standpoint of a
student?—Yes.
2791. You have written on the subject, I believe?—I have
written a very little.
2792. The problem before this Commission, you understand, is
the question of the advisability or inadvisability of South Africa
returning to a gold basis, independently of what action may be
taken by Great Britain, 1st July next. We would like your judg-
ment on that question, and the reasons in support of it?—I should
like to preface my remarks by saying that it is naturally a subject
to which I have not been able to devote anything like enough time.
It is merely a hobby and my practical experience, as indicated
by the answer to one of your questions, is not very large. May I
read first a short general statement of the desirability of going
back to gold, before I come to the special questions?
2793. Certainly?—"I shall preface what I have to say on the
specific questions put in the questionnaire by stating generally that
South Africans are in favour of as many countries in the world
returning to a gold standard at the earliest possible moment, because
it is of the most vital importance to our great gold mining industry
that gold should be in strong demand for monetary purposes.
The demand for gold for industrial and ornamental purposes has
not been in the past, and is not likely to be in the future, strong
enough to maintain the value of the metal at anything like that
which it enjoyed when it was popular as money. Some of the
managed money theorists have dilated on the many uses to which
this noble metal could be put were it only cheap enough. Such
visions inspire us in South Africa with no enthusiasm. So much for
our prejudices. We want to see the world made safe for gold. But
quite apart from prejudice, the opinion is regaining ground that
gold is the only really satisfactory basis of currency, because, if
largely adopted, it is independent of human caprice, and, there-
fore, ensures a fairly stable standard of value, and a convenient
medium of international exchange. The mere fact that in times
of disturbance, such as the late war, gold may cease to have a
high value is immaterial, for a managed system would also break
down, and each country would, in any case, have to take special
war measures. It is sometimes objected that gold is an expensive
thing to use as money when paper can be so easily and cheaply
manufactured, but this is one of its more useful attributes. It
is true that the high expense is largely due to the fact that gold
is used as money, but the amount of it in existence cannot be
arbitrarily added to like a paper currency, although the latter
may, by limitation, have acquired just as high a value. As a
standard, then, of international value, requiring as a condition an
agreement between countries no more elaborate than to fix in
each country a price at which the metal will be freely convertible,
gold has peculiar advantages. It is not only to the interest of
South Africa, but it would seem to a detached observer to be
sound policy for the world in general, not to despise gold as a
‘barbarous relic’ in the realm of currency. Now, if we admit
the above general proposition, it follows that the world in general
and South Africa in particular, should do all in their power to
resume as soon as possible currencies that are freely convertible
into gold. The longer such resumption is delayed, the more ac­
tomed people become to do without gold. It is the permanence
of this habit of doing without gold that is relied on by the pro­
tagonists of managed currencies. We can, therefore, say in general
that South Africa ought to return to the gold standard as soon
as possible, rather than to pursue an infinitely receding ideal.”

Professor Kemmerer. Have you a specific answer to the
second question?—It is practically a repetition of the first. I
have not come yet to a detailed treatment of the first.

2795. I am going to skip some of these questions. The argu­
ment has been advanced very vigorously by persons who believe it
desirable for South Africa to tie up with sterling that the great
bulk of the trade of this country is with Great Britain, that most
of South Africa’s exports go to Great Britain, that most of her
imports come from Great Britain, and that there would be, there­
fore, a great advantage to South Africa in having a stable exchange
with the country with which she does the major part of her busi­
ness; that that fact represents a strong urge for tying up with
sterling. What is your judgment with reference to that?—In the
middle of my answer to the first question I say: “Another
objection to our returning to gold on 1st July, 1925, or independ­
etly of Britain, is that the exchange rate with England would fluctu­
ate according to the London-New York exchange, and it is argued that
since most of our trade is done through London, this is a dis­
advantage. It is hardly necessary to point out that no disad­
vantag e can be constituted by any possible premium on British
sterling, but only by the fluctuation in that premium. The expres­
sions “high” and “low” exchange rates have no significance
except with reference to purchasing power parities. It is some­
times argued against this view that, in fact, importers pocket the
exchange. Well, if competition fails to remedy this habit, it will
probably fail to prevent a similar added profit being made by them,
whatever the state of the exchange market. It is impossible to
take seriously the objection that a “low” exchange rate is a tax on
the exporter, and a present to the importer, except during any
interval that may elapse before the level of prices has had time to
adapt itself to any new exchange rate that may supplant an old.
But a considerable objection to our returning to gold independently
of Great Britain is furnished by (1) the fluctuation in exchange that
will take place; (2) the difference between buying and selling rates
which, if we were linked to Great Britain, the banks could hardly
make as great as they are to-day, and probably, it is argued,
would be under a gold standard. As to the first objection, it is
insurmountable, and is the price, in part, we must pay if we do
not wish our currency to be subject to the caprice of managed
paper standards. Of course, to return to gold is, at present, to
tie ourselves to the dollar, for the latter to-day determines the
value of gold; and it might be said that that is to substitute the
caprice of that country for that of Great Britain. The answer
to this is that it is to the interest of the United States to keep the
value of gold as stable as possible.”
2796. Do you mean to imply that if this country ties up with gold, the London-South African rate will fluctuate up and down to the same extent, and with the same rapidity as the New York-London cross-rate now fluctuates up and down? I should say it would follow it fairly closely; otherwise it would become profitable to ship gold.

2797. To ship gold where?—Either to or away from South Africa, as the case may be.

2798. You have this cross-rate situation now. The London-New York cross-rate is moving up and down continually, but the South African-London rate, it would seem, has been successfully pegged, and held pretty well pegged for some time. Now, if you had a very active exchange business being carried on directly between South Africa and New York, as well as between South Africa and London, it would be easy to carry on arbitrage transactions, and, when the exchanges were out of harmony at all, you might buy sterling exchange directly through New York, or you might buy New York exchange through London. But the banks here carry on practically no exchange with New York. I understand it is almost impossible to buy direct exchange here on New York, and, in the same way, direct exchange here on other centres. Almost everything is done through London. So, until you have other markets to operate through, I don't just see how you can carry on these arbitrage transactions, and I don't see why you would need to respond at all closely to the cross rates. You don't do so now?—Isn't that because it is not profitable at any time to convert gold into South African currency? It has not yet been.

2799. Gold, after all, is a commodity in international trade now, isn't it?—Yes.

2800. You can always tell how much an ounce of gold is worth in South African money, American money, British money, or any other money, by the current rates of exchange and the current prices of gold. But although the cross-rate may vary decidedly in the future, it may make it possible to ship gold to New York, to sell it in New York, and with the proceeds buy exchange on London, because of lack of harmony in these triangular exchanges, it isn't done. There is practically no direct exchange here with New York. Let me put it differently. This is a subject in which we are looking for light. You have two currencies, the South African currency and the sterling currency, which are really different things. The monetary unit in each country is called a pound, but the South African unit is one thing at the present time, and the sterling unit is another thing, is it not?—Yes.

2801. There is no conversion on demand of South African money into sterling, or of sterling into South African money at the present time. Such operations must be made at the market rate of exchange. There is no redemption on demand?—No.

2802. Then the exchange rate is the price, we'll say, of £100 sterling in terms of the pound South African. If it costs £97 South African to buy £100 sterling, you would call the rate 97. If it costs £103, you would call the rate 103—the South African price of £100 sterling?—Yes.

2803. That South African price would presumably vary, would it not, if there were any changes in the value of the pound sterling, while the value of the pound South African in terms of goods was remaining unchaged?—Yes.

2804. It would likewise presumably change, would it not, if pounds sterling should remain constant in terms of goods and gold and everything else, while the South African pound, due to inflation or deflation, should be depreciated or appreciated in value?—Yes.

2805. That is, a change in either one of those units would change the exchange rate?—Yes.

2806. If you judge the value of the British pound by its purchasing power over gold, as expressed in the London-New York cross-rate, you will find that there have been a great many ups and downs recently. It moves every day, and over a period of months it has moved very decidedly. The presumption is, is it
not, that a good many of those changes have been due to changes
in the value of the pound sterling, and not to changes in the
value of gold?—Yes.

2807. Furthermore, if you view the value of the pound sterling
not by measuring its purchasing power over gold, but by measuring
its purchasing power over commodities, you will note that it has
likewise been changing. The index number in England has been
going up or going down, and it has been going up or going down at
different times and at different rates of change from the pound
here?—Yes.

2808. So there is a pretty strong presumption that the pound
sterling has been changing in value right along, and yet, if you
take the figures for South African exchange rates, you will find
that they go for months with hardly a change, irrespective of
these ups and downs in the pound sterling?—Yes.

2809. The question is, if they can be maintained for long
periods through the control which the banks exercise here, irrespec­
tive of the ups and downs in the pound sterling, when they are
not tied up with gold, why should they not do the same thing,
probably to a lesser degree, when they are tied up with gold?—At
the present moment, the banks are strong enough to hold large
balances, say, in London, of English money, and strong enough
for short periods to sell South African money at less than its true
value. And I should think that if we were on a gold standard, a
echeck would be put to their ability to do that.

2810. Do you think they would be less strong on the gold
standard than they are now?—Well, outside influences would
probably operate. For instance, supposing it became more profit­
able for our mines to take their gold to the mint and have it
minted, than to sell it at the price quoted in London; if the
exchange rates quoted by our banks for English money were such
as to make it profitable for the mines to do that, they would do
so, and that would automatically prove a check.

2811. It would put, perhaps, a permanent limit there. I sup­
pose the presumption is pretty strong that, with the South
African mint here, considerable quantities of your gold will be
taken to the mint, and it may very well be that your exchange for
some time may be constant, pretty nearly at the gold export
points most of the time, and when you need more gold you will
get it, not by importing more, but by reducing the amount that
go^s out. You have only two or three banks here doing an exchange
business. They are doing all this business practically directly
with England; not with other points. They seem to agree from
time to time upon what the exchange rate shall be, and hold it
there pretty effectively. If anyone wants to buy exchange in
London on South Africa, he has to deal with these particular
banks. If anyone here wishes to buy exchange on London, or anywhere
else, he has to deal with these banks, except to the extent that he
can go out and buy from merchants?—Yes.

2812. The only additional check that is suggested here is when
you go to the gold standard, you will have actual redemption in
gold. But you are exporting gold right along now as a commodity;
and gold as money and gold as a commodity are not very different
from the standpoint of international trade principles?—I agree.

2813. The point I am trying to get at is, whether or not the
contentions are true of those people who claim that the minute
you tie up with gold, you are going to be subject to all these
fluctuations, or a considerable part of them, in the New York-
London cross-rate. I fail to see what new factor is coming in that
is going to make this exchange so very susceptible to changes in
the value of sterling when, since it is so unsusceptible to the
changes in the value of sterling now. You will find that that is
not limited to South Africa. Take the Italian exchange: it has
been remarkably fixed. And a number of other exchanges have
been remarkably steady?—I should say that money is wanted for
two purposes, to buy the goods of the country in which it is legal
tender, and it may be wanted for another purpose, namely, for
its convertibility into gold. That introduces a new factor, which
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to-day is not present. If South African money ceases to be desired in order to buy South African commodities, it might be desired to obtain gold, into which it should be convertible on demand.

2814. If you want to buy gold with South African money, you can do it now, can you not?—Yes, you can.

2815. You can buy it at the market rate. The difference is the market rate would be a fixed rate then, and now it is a varying rate. You can always tell what the value of your unit is in gold by checking it on the market rates. The principle is the same in either case. In any event it would only be converted when it was profitable to do so, and presumably gold would only go out when it was more profitable outside than at home?—If gold commanded more commodities abroad than it did in South Africa, then there would be a demand for our currency, not for the purpose of buying goods in South Africa but for the purpose of using it to buy goods abroad and the exchange rate did not truly reflect the purchasing power parity of South Africa with whatever country you were dealing, then gold would either tend to leave, or possibly flow into the country in the opposite case.

2816. There would have to be enough difference to make it profitable to make those shipments, probably in considerable quantities; and if the banks here were not willing to do it, there would have to be other concerns brought in, or organized, to do it, and there is a great deal of friction, a great deal of slack there, is there not?—Yes.

2817. Look at the movements of the sterling cross rate in the last few months, or during the present year. Then compare these movements with the movements of the South African-London exchange. One wonders how it is that sterling can change so continually in terms of gold, and not change in terms of the South African pound when the two are not tied up by any principle of convertibility at all. Isn't it true that you have a tremendous amount of friction here, normally in a small country, and that that apparent friction is increased by the monopoly control exercised by two banks working together?—Yes.

2818. Even if you tie up with the gold standard, you will still have a large amount of friction, and a large amount of monopoly control—which will be limited by possibilities of shipping gold. But after all, those possibilities only mark outside limits, and give quite a possibility of pegging the rates from time to time more or less effectively within those limits, if the banks want to exercise that control as they have been exercising it?—Yes. I agree that there would still be a certain amount of friction. But I should say that the fact that there are on the spot in South Africa stocks of gold being produced daily, would tend to make the exchange rather more sensitive to the New York-London exchange than it might be otherwise. In the opposite case it would certainly be necessary to ship the gold.

2819. We are speaking now of South Africa stabilizing and sterling not being stabilized, of there being no gold readily available at the other end. Assuming that England will not go to a gold basis on 1st July next, then the question is to what extent will these fluctuations in the London-New York rate be reflected in the South African-London rate?—I think they would be fairly sensitively reflected.

2820. I don't see that you have given any reason why they should be much more sensitively reflected than they are now?—Well, if an exchange rate is to-day quoted which does not reflect the purchasing power parity rate between England and South Africa, there is no means of taking advantage of any discrepancy that there may be between what one might call the ideally true exchange rate and the one actually quoted other than by importing or exporting goods from the one country to the other.

2821. But from the standpoint of taking advantage of the purchasing power parity, one item of goods is about as good as another, isn't it; that is, gold is just one commodity? You can
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export it, and create foreign exchange. You can export mealies or diamonds and create foreign exchange. You export gold when it is more valuable abroad, as you export mealies and diamonds for the same reason?—Any considerable addition to or subtraction from our gold reserves would have an effect on the amount of money in South Africa, differing in character from the effect that a transfer of commodities would have. When you export mealies, you create a credit abroad. You lessen the supply of mealies here. That tends to tighten up the supply of mealies. When you export gold coming from the mines, you create a credit abroad, and you perhaps lessen the amount of gold in South Africa. But until you tap the gold specie, or the gold that is being held in reserve in the banks, you are not likely to have much of an effect on your discount rate, or to tighten up your money market; and inasmuch as the total amount of gold you have in circulation here is probably not over one-fifth or one-sixth of your annual production, the presumption is that most of your gold would be going out in the form of bars and that you would not be curtailing your cash very much until it reached a considerable point of currency redundancy, relative redundancy?—Yes. Nevertheless, there is to-day not an actual diminution in the amount of what is regarded in the country as cash reserves. And it would probably be found that any unscientific exchange rate that was charged to-day and led to an undue export of some particular commodity or commodities in general, would reflect itself in a fluctuation in prices. It is my suggestion that if we were on a gold standard, if the same thing happened to gold as now happens to a commodity, the banks would be forced to modify their credit policy from time to time. For instance, they might find themselves getting short of gold reserves; and that would be an indication to them, which they couldn't fail to take notice of, that their exchange rates had to be altered.

2823. Yes, within broad limits. You can ship gold from South Africa to London to-day. You can sell your gold in London to-day, and you can buy New York exchange for it. You can buy goods in New York and bring them down here. You have possibilities of triangular operations right along. But according to all the statistical evidence we have, you have at the present time an exchange situation which is quite out of adjustment. For example, you have the South African pound in terms of gold worth about 34 per cent. we'll say, more than the pound sterling?—Yes.

2824. You have the South African pound in terms of purchasing power over commodities worth more than the pound sterling by the ratio of the two index numbers. The index number in England to-day is about 167. The index number here is 133. So, the South African pound, in terms of commodities, is more valuable than the British pound in the ratio of 167 to 133, which would seem to imply that there ought to be a very decided shipment of gold to South Africa, or a holding back of the gold here?—Yes.

2825. The price level in the United States to-day, which is a gold-standard country, is represented by an index number of 150 as compared with 1913. Here, South Africa, a country that is not on the gold standard, has an index number of 133, as compared with 1913. Gold would seem to be a great deal more valuable here than it is in the United States. The United States is a free gold market. You can bring all the gold here you want to from there but it isn't being brought. The point I am trying to get at is, why should the mere tying up with gold make the exchange rate between here and London so very susceptible to changes in the value of sterling when now it is not at all susceptible to changes in the value of sterling as you measure those exchanges through index numbers, or foreign exchange figures, or any other way you may suggest?—I think the losses the banks make by selling South African money at too low a price would be very much more manifest if we were on a gold standard than such losses are to-day.

2826. Do you think they might see them then, and don't see them now?—Yes, that is my impression.
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2827. They think in terms of sterling, and if going over to the gold standard is going to bring new vision to our bankers, I think that that is a very good argument in favour of going back?—My impression is it would force them to, because the logical result of their quoting incorrect exchange rates would seem to me to be that the entire gold specie reserve of the country might be drained away.

2828. Do not the adjustments you have in mind, through more or less frequent fluctuations, presume that South Africa has what so many other countries have—direct exchange connexions with a considerable number of markets; so that when any one of the exchanges gets out of equilibrium, you arbitrage through that market to take advantage of possible profit, and thereby restore the equilibrium?—Yes. For fine adjustments such connexions would be necessary.

2829. And if South African exchanges should be established for direct operations with four or five of the leading exchange markets of the world, then you would immediately set up the possibilities of all these arbitrage transactions, which would tend, if there was a group of men, foreign exchange men, operating them, to keep the thing in equilibrium by continual changes, perhaps several times a day?—Yes.

2830. But when you have all your exchange carried on by practically two banks, and when you have only one exchange market you are operating with, and when you have those banks in the interests of profit getting together, and fixing the rate from time to time and only changing it by agreement, then haven't you a situation which makes possible and probable a rather high degree of infrequency in your exchange fluctuations, whether you are on a gold basis or any other basis? That is my question—Well, certainly you are not likely to have the same number of keen brains watching the situation as you have in countries like England, which has enormous foreign trade. But it seems to me it would keep any deviation from the true value within closer limits than is at present the case.

2831. Within closer limits than now. Of course, the limits now are very large?—Yes, they are very large. I should say much closer limits.

2832. Would you expect daily fluctuations if you tied up with gold, where you have now fluctuations taking place only once in several months; or, when you say narrow limits, do you mean perhaps weekly fluctuations, or what do you have in mind?—I am unable to state that. I have not sufficient practical experience to state what would happen in practice. All I can say is, if the rates deviated to an extent which made it profitable to anybody to take advantage of it, they would do so, whereas at present there is not the same opportunity of their doing so. An anomalous price of gold in South Africa and England respectively would be taken advantage of more quickly than an anomalous price of other commodities.

2833. The more exchange deviates now from what should be the proper rate, the more profitable it becomes either for exporters to export or for importers to import?—Yes.

2834. For instance, the present exchange rate is very favourable to importers, and if the exchange should fall considerably more it would be still more favourable to importers in this country, would it not?—I don’t agree that the exchange is really more favourable to importers.

2835. Not now?—No.

2836. You can buy now £100 sterling for £97½ South African. If you could buy £100 sterling for, say, £95 or £94, unless there was a corresponding change in prices over there, that would be still more favourable to the importer?—There is a corresponding change of prices.

2837. There is a lag there. Prices tend to move either upward or downward after the movement in exchange?—Yes.

2838. And until that slack is taken up there would be this advantage, and this advantage would tend to stimulate imports. When your exchange goes down, and would stimulate exports as the exchange went up until the slack were taken up; and that
very stimulation tends to restore equilibrium and bring about a just rate. That would take place with any kind of currency?—Yes, I agree with that. But it is not the exchange rate as quoted, which determines the imports and exports, or the preponderance of imports over exports, but it is the exchange rate as compared with the purchasing power parity of each currency for the purposes of international trade. My impression is that at present the purchasing power parity of the South African currency, as compared with that of Great Britain for the purposes of international trade, or trade between the two countries, is such that the proper exchange rates to be charged by the exchange merchants would be greater than they are at the present day; that is to say, higher rates against Great Britain.

2839. Here your price levels are different in the ratio of something like 167 to 193, while your exchange rates are different in the ratio of 100 to 96 ½. Either prices in Great Britain are altogether too high relative to this country or exchange rates here are altogether too high relative to Great Britain?—Yes. I did deal with that in a general way. I don’t know whether you wish to hear it.

2840. This is a point that has come up a number of times in our evidence, and upon which there has developed considerable difference of opinion. This was my answer to Professor Cassel, in his book, “Money after 1914,” says apropos of this: “The re-establishment of a constant exchange rate between countries with a gold standard does not depend primarily upon these countries possessing a gold standard, but upon the purchasing power of their currencies being kept at a certain level. Thus the fundamental condition for fixed exchange rates, even in a gold standard, is a fixed ratio between internal purchasing powers of the currencies. A country desirous of keeping to a certain gold standard, therefore, will find itself compelled to keep to a certain definite purchasing power in its currency, and the chief significance of the gold standard really lies in this, that in a manner that is at once apparent it confronts those responsible for the country’s monetary policy with this necessity. If the currency’s purchasing power as against commodities should fall considerably below what it ought to be, then demands for gold must arise, since gold, at any rate in the rest of the gold countries, still retains its purchasing power against commodities. Against such demands for gold accumulated gold reserves are of no use whatever. The redemption of the country’s currency with gold even in the long run can be sustained if the purchasing power of the currency is kept at its equilibrium. Thus the possibility of returning to the old gold standard or of adopting a new and lower gold standard depends on the level at which the internal value of the country’s currency can be stabilized in relation to the purchasing power of the gold currencies; that is to say, for the present (that was early 1922, but it is true to-day), the purchasing power of the dollar...

That seems a sound statement. Is it the purchasing power of the South African pound to-day such that it would be possible by 1st July, 1925, to attain the purchasing power required by the gold standard? There can be no doubt that it is, for at present exchange rates the difference between the American dollar and our pound is negligible, and present exchange rates must be taken to reflect the present purchasing power, for the purposes of international trade, of our money. As a matter of fact, if it is true that our banks have accumulated very large sums in London, it would appear that the relative limitation of our currency is such that on the whole higher exchange rates ought to have been charged against British sterling.

2841. (Professor Kemmerer.) What do you mean by higher exchange rates?—I mean that the South African pound to a large extent ought to have stood at a greater premium relative to the British pound than it did.
2842. You mean there ought to be a greater discount?—Yes.

2843. Say it is 3\% per cent; now, you mean it should be a larger discount?—Yes. Less South African money ought to be able to buy more English money. It is more than possible that the banks if they have, as I have suggested, been selling South African money too cheap, will not view with favour a return to gold, but would prefer to link with sterling, for the latter course would make their speculation a successful one.

2844. Hasn't it been a very successful one so far?—It has so far, yes.

2845. Most of this sterling was bought when the gold value of sterling was low. It has been going up this year rapidly. To the extent they bought this a year ago, or six months ago, or three months ago, they have made a very nice profit, measured in gold, haven't they?—Yes, measured in gold.

2846. In that case, if you stabilize and they have to sell at a discount of 5 per cent., they haven't a great deal of a kick coming, have they?—No. I agree, but I doubt whether that was a legitimate transaction.

2847. That is another question. But that is a point to be taken into account. If the banks say this country must stick to sterling because if this country doesn't stick to sterling they will have to bring back these big balances they have abroad at a discount, they have been making, according to your contention, a speculation there so far as the operations of this year are concerned, and they have made a nice profit. And the fact that they can't make a little more profit, by reason of the possibilities of this country returning to a gold basis, is hardly a strong argument why this country should not return if there are other reasons to justify it?—No, and if they sold that and bought American money for it now, they would have already saved any possible loss; in fact, they would have secured some profit. However that may be, the present exchange position presents no obstruction to the early return to gold, but rather indicates that it would be possible with little or no deflation. This view is also supported by the fact that the South African cost of living has risen less since 1914 than the American.

2848. Let me interrupt you: You say "little or no deflation." I notice that the index numbers of the Bureau of Census and Statistics increased from July to October from 125 to 133 on the basis of the immediate pre-war figure as 100. That shows there is only a strong upward tendency in prices here, but even at 133 you are 17 points below the price level in the United States, which is on a gold basis?—Yes. When I spoke of "little or no deflation," I was assuming that the exchange rates quoted reflected the true position.

2849. Isn't it quite possible that this country may have over-deflated, perhaps transferred an undue amount of its bank funds to London, and that even if you return to a gold basis 1st July next you may be confronted with an advance in prices instead of a decline?—Yes, that is my view. This view is also supported by the fact that the South African cost of living has risen less since 1914 than the American. As a matter of fact, in this letter, which I have not read to you, I deal with that to some extent. Obviously, if we return to gold these balances in London will become available as a basis for credit in this country.

2850. The bankers here say—some of them at least—that the reason why they have put those funds over there is not as a speculation but because conditions here have been so uncertain, so unstable; because the opportunities for investment here in liquid securities of the type that a commercial bank should have are so limited, that it has been more desirable to transfer those balances abroad. That is, the money couldn't be used here safely, because there is not a sufficient demand. That is their argument?—It seems to me that is unduly pessimistic. I am not in a position, of course, having no banking or business experience, to say. But I think that is taking an unduly pessimistic view. After
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all, before the war South Africa developed at a considerable rate. I don't know quite what factors have intervened since then to make it a dangerous country to help to develop.

2851. Hasn't it been true that there have been a great many failures here in the last few years, and that some of the banks have had serious losses and that all these facts taken together make bankers very cautious about lending money here, perhaps more cautious than they were before. And isn't it also true that this very instability in the value of your currency is a factor?—Instability?

2852. It brings an element of uncertainty into business here. That would naturally tend to restrict the amount of funds that would be invested in the country?—As to the insolvencies that have taken place they are directly attributable to the inflation for which the banks themselves were responsible up to 1920 before the passing of the Currency and Banking Act.

2853. You can't blame them for being rather cautious after these experiences, can you?—But there is a distinction between issuing promises to pay, which you are not likely to be able to redeem on a large scale, like they did then, and conducting business on the basis of accepted ratios of cash reserves.

2854. If you were a banker and were in a position to issue notes in very substantial quantities to the public at a fair rate of interest, and not to be required to keep any gold reserve against them worth mentioning; in other words, if you could swap with the public your non-interest-bearing promises to pay without appreciable gold backing for their interest-bearing promise to pay, you would be in a position to make some very nice profits, and without any very great responsibilities, at least for the immediate future, would you not? And under such circumstances, wouldn't you be likely to extend your note issue very considerably? Whereas when that note issue privilege was taken away, and whereas when that note issue privilege was taken away, and conducting business on the basis of accepted ratios of cash reserves.

2855. If you were a banker and were in a position to issue notes in very substantial quantities to the public at a fair rate of interest, and not to be required to keep any gold reserve against them worth mentioning; in other words, if you could swap with the public your non-interest-bearing promises to pay without appreciable gold backing for their interest-bearing promise to pay, you would be in a position to make some very nice profits, and without any very great responsibilities, at least for the immediate future, would you not? And under such circumstances, wouldn't you be likely to extend your note issue very considerably? Whereas when that note issue privilege was taken away, and you saw prospects of getting back to a basis of convertibility in which you would have to meet your obligations in gold, wouldn't you begin to be much more cautious and draw in your loans?—Yes, but I am of opinion that the deflation that was necessary for that purpose has already taken place.

2856. Have you any other points that you would like to make there in connexion with this problem of ours, either in answer to any of the questions specifically asked in the questionnaire or outside of it?—It would be necessary that there would have to be extremely stringent provisions to prevent inflation of currency beyond the point where it is possible to maintain the proper purchasing power parity.

2857. Wouldn't your present laws protect that, if the banks are required to keep at least 10 per cent. reserve with the Reserve Bank; and if the Reserve Bank is entrusted with the obligation of conserving the money market and maintaining the gold standard—as it is—and if in case there was a position at all dangerous the Reserve Bank were under the obligation to protect the market. Isn't there sufficient machinery there now to protect the country from any undue drain of gold?—Except that I should say that in a small country like South Africa the reserves ought to be rather higher than in a larger country like the United States.

2858. Should you make the legal reserves higher than they are now?—That is a very practical problem, and I haven't sufficient experience of banking to be able to answer it. I think the reserves ought to be higher than in countries where the cheque system is highly developed.

2859. Isn't the cheque system highly developed here?—Fairly. But I should say if gold were in circulation there would be a considerable demand for it on the part of the natives.

2860. Isn't South Africa in a better position than most other countries with regard to the possible drainage of gold? You are at the world's principal source of supply and can tap that supply-
at any time at the source, whereas other countries may be prevented from obtaining gold when they need it promptly because of delays in transportation, or restrictions imposed by other countries?—If your banks did their duty, that is so. One of the chief arguments against the gold standard is possibly that any temporary departure in a small country like this, from what I may call the gold standard purchasing power parity, would result in much price fluctuation. Well, the same kind of factors that would cause such fluctuation under a gold standard would cause a similar fluctuation if our currency were based on Treasury bills; and there seems no real reason to suppose that they would be more violent in the one case than the other. Under an entirely separate currency system the same factors would cause exchange fluctuations. Some kind of fluctuation is inevitable in trade, but can be mitigated by intelligent credit control. Under a gold standard in a small country like South Africa I should say it would be well to have a large proportion of the currency in actual gold.

2861. A large proportion of the currency in actual gold in circulation, you mean?—Yes.

2862. Gold in circulation isn't much use when it comes to a demand for currency for foreign payments, is it?—No.

2863. It is hard to collect it, and expensive to collect?—Yes.

2864. And gold in circulation in place of paper is rather an expensive sort of medium of exchange in a country. Other things equal, I would think the less expensive your mechanism of exchange is, the better for the country; isn't that true?—I had in mind that if there was a large amount the country would better be able to stand a drain on its reserves, but I am not sure that that view is actually correct. I mean, gold will probably be in considerable demand for circulating currency.

2865. It is usually difficult to get gold out of actual circulation when you wish to export it to meet international requirements. But if the gold is in your bank, it can be got quickly when the demand arises?—Yes.

2866. With the last two questions we are much concerned: If South Africa should return to the gold basis 1st July next independent of Great Britain, what special measures, if any, should be taken to enable her to maintain gold payments?—I should say that the power to issue notes partially backed by British Treasury bills should be taken away.

2867. Why?—Because it does, to some extent, provide a backing of our currency that may possibly depreciate.

2868. Isn't it true that these investments in British Treasury bills are practically loans payable to banks in South African pounds and collateralised by Treasury bills?—Possibly.

2869. So that the ups and downs in the prices of Treasury bills in most cases would be of importance only through affecting the value of the collateral and not through affecting the amount of the obligation?—Yes. I don't know whether that is the case to-day.

2870. I believe that is the case?—If that is the case there is no objection.

2871. I believe there have been some direct investments in Treasury bills, but to my understanding the bulk of the cases where Treasury bills have been used are of the kind just mentioned. Isn't it true that one of the first requirements of a central bank which issues large quantities of notes to circulate as money, and which are redeemable on demand in gold, should be that the assets back of those notes should be highly liquid?—Yes.

2872. And isn't it also true that it is the duty of a central bank to be in a position to protect its gold reserves in case of a possible drain?—Yes.

2873. Under the existing requirements of your Reserve Bank Act, the Reserve Bank must keep a normal minimum reserve of 40 per cent. in gold against its notes and deposits backed by notes and deposits of the Reserve Bank. It can keep of the remaining 60 per cent. against notes, 35 per cent. in these Treasury bills. Aren't Treasury bills, or promissory notes secured by Treasury bills, presumably a highly liquid asset, an asset that can be realized promptly and presumably without any substantial loss?—Yes, I should say so.
2875. Then it meets the requirement of liquidity. From the standpoint of the requirement that the bank should be in a position to protect its gold reserve; if exchange in this country goes to the gold export point and there is a heavy demand for remittances to England, we'll say, because exchange has gone to the gold export point, what the person wants who is making this demand is not so much gold as gold credits laid down in London, isn't that so?—Yes.

2876. And if the bank could say: "We have large balances in London; we have Treasury bills we can market at once and turn into cash," it would be in a position to sell against them at the current rate of exchange in lieu of shipping gold; and that would protect the bank from the drain of gold?—Yes.

2877. It is often considered wise by banks to keep a certain amount of short-time foreign bills abroad, just for the purpose of protecting its gold reserves. The National Bank of Belgium does that on a considerable scale. So this keeping of credits abroad in the form of loans secured by Treasury bills would not be in conflict with these more fundamental requirements of a central bank, would it?—Yes, I agree.

2878. You would run the risk, of course, if these Treasury bills represented an important part of the backing of your notes, that, if you tied up with gold and if the Treasury bills which were payable in sterling should go down in gold value, the collateral would be weakened. But in this case, in the majority of instances there would be the obligation to pay in South African pounds. It would not lessen the obligation, but it would weaken the collateral. And I suppose the banks might demand more than 100 per cent. collateral if they wished to?—Yes. For the rest, I should say the Reserve Bank ought to use the discount rate in order to prevent our currency falling below the purchasing power which is required in order to remain on the gold standard.

2879. If it should be decided to go to the gold standard 1st July next, do you believe it would be desirable for the Government at the very earliest possible date to make a public announcement to that effect, so that the public and the banks could make arrangements for the return on that date?—Yes, certainly.

2880. Do you see any other measures that would be necessary to be taken, aside from that announcement?—No.

2881. A final question is what function, in your judgment, the Reserve Bank should perform in this connexion?—I don't think any other functions than to satisfy themselves on the date in question that the purchasing value of the South African money is such as to be able to stand the sudden transition.

2882. In other words, to be assured that it had adequate reserves and to put up its discount rate, if desirable, and to the extent desirable to protect the gold standard?—Yes.

2883. Should it be prepared also to sell securities or other paper in the open market if it were necessary in order to contract the currency and prevent an outflow of gold?—Yes.

2884. Do you think the Reserve Bank at the present time is performing its proper functions as a Reserve Bank?—That is rather difficult for me to say. The country is at least to-day in a condition that it can return to gold without difficulty in the future. It is conceivable that the Reserve Bank, by adopting a different policy, might have allowed the South African pound to have reached a point where that would not have been easy.

2885. How could the Reserve Bank have acted so as to prevent the exchange from reaching the favourable point at which it now stands?—They might have lent money on more favourable conditions.

2886. They have not been lending any money to the public, have they?—No. I understand the Reserve Bank has been performing very few functions.

2887. What should the bank do that it isn't doing now, if anything? You spoke a few minutes ago of the wide margin between the buying and selling rates of the banks for exchange. Do you think it is the duty of the Reserve Bank to come in and, by
operating in the open market, to force a narrowing of that margin?
—Yes, I have thought that, but I hesitate to give an opinion on
this because I don’t know precisely what other kinds of effects it
might have. But, prima facie, I should say yes.

2888. Do you think it desirable for the Reserve Bank to come
out in the open market from time to time and discount bills for
the public, or buy acceptances or sell securities, in order to conserve
the money market and to make the rates that it thinks are equi-
table, safe, and just, effective?—Yes.

2889. So you would like to see the Reserve Bank take a more
active part in the everyday business of the country?—Yes. It has
been suggested by some people that the fewer central institutions
one has the more play gold has as a currency, and that to economize
it is not desirable. But the practical advantages of having a
central system in the country outweigh that, in my opinion, in
preventing undue fluctuations.

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WEDNESDAY, 24TH DECEMBER, 1924.

Mr. Clarence Wilfred Cousins (examined).

2890. (Professor Kemmerer.) Will you tell us what your
present position is?—Secretary for Labour.

2891. How long have you held this position?—Five months.

2892. Prior to that, what was your position?—Director of
Census and Statistics.

2893. How long were you Director of the Bureau of Census
and Statistics?—Seven years altogether.

2894. So you are thoroughly familiar with the figures that have
been compiled and published from time to time by the Bureau of
Census and Statistics relating to prices, wages, cost of living, and
the like?—Yes.

2895. You know that the specific problem that has been placed
before this Commission is the problem of the advisability or
inadvisability of South Africa returning to the gold basis independ­
ently of Great Britain, 1st July next?—Yes, I understand that.

2896. We would like to have your message to us on that subject
in the first place, and in the second place we would like to have
some assistance from you in interpreting some of the statistical
material that we have been receiving in evidence from time to
time. Have you any judgment to express with reference to the
main problem of the advisability of returning to the gold basis 1st
July next?—In an irresponsible way, yes. If final responsibility
for a decision were put on my shoulders, I should be found
wanting in courage.

2897. Well, you have the responsibility of your own prestige?—
In my opinion it would only be safe to do it if we were quite
sure of a number of international factors, which as far as I know
are quite outside our own control, and which might overwhelm
us if we endeavoured by independent action to shape a course
without respect for these factors. That is my feeling about it.
In other words, on paper it might seem a very advisable thing to
do, and yet there might be factors which would quite overset
any advantages we might have, and which might put us in an
exceedingly difficult position.

2898. What particular factors have you in mind?—The factor
that, apart from our gold production, commercially we count
for so little in the world’s finance.

2899. You count for a great deal more in the world’s finance
than many other countries than are even now on the gold standard,
and successfully maintaining it; countries which do not themselves
produce any gold, or at least any considerable quantity of gold?—
My point is that our production of gold and our export of gold
are so out of proportion to our general commerce that though one
might measure the effect of the change upon our gold industry
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alone, I do not think it is possible for us to measure or to forecast with certainty the effect it would have upon the general conditions of the country's commerce. That is my difficulty.

2900. Whether you decide to tie up with sterling definitely, as Egypt has done, or decide to go to gold, or decide to take something of an intermediate position as you are taking now; in any case a decision must be made, and the decision must be made on the basis of what is likely to happen. Isn't that true? You must make a forecast?—We have got to make a forecast. What I am confessing is a lack of courage, because I have no sufficient knowledge of all the factors, some of which at least are human factors.

2901. I have heard a great many people in America express the opinion that if there is any country in the world that ought to have courage to believe that it would not be in danger of losing its gold in case it should return to the gold standard, that country is South Africa, which produces much more than half of the world's total gold supply, and is in a position, if any one strives to take away more of her gold than she wishes to dispose of, to say: "No, you can't have it, because we want it," and is in a position to prevent any other country from draining her of her gold. You tap the supply at the source.—That has been my conviction for years. I really feel that we shall eventually be judged to have played our cards very badly in this country. On the other hand, there are so many big factors quite outside our control as a country that might easily demolish our pretty little house of cards. That is where my lack of courage comes in—from a lack of knowledge of the outside factors.

2902. Of course, that is a situation with which every country in the world is confronted, and I suppose will continue to be confronted with indefinitely; that is, until they just face the situation?—Yes.

2903. The world seems to be at the present time moving back toward a gold basis at an increasingly rapid rate. I suppose there are in the world to-day a dozen or a dozen and a half countries that are either on the gold standard or are so near the gold standard that their currencies are stabilized with gold, with good prospects of continuing to be so stabilized. Practically every one of those countries has returned to the gold standard since the war, and practically every one of them was compelled to face just these uncertainties you mention. If each of these countries had waited until all these uncertainties were removed, when would the world get back to the gold standard?—Never. I feel quite sure that the time is very much more opportune than it was. That is certain. I think the position is very much easier for us.

2904. Than it was when?—Say three or four years ago.

2905. I have been just looking at some daily figures of sterling exchange rates. I find that 21st February of last year, 1923, the cross rate between New York and London was 4.7319, only about 3 per cent. below gold parity. The cross rate this morning was 4.701. Yesterday, I believe, it was 4.71. So that sterling was actually nearer gold parity in February, 1923, than it is now, although only slightly nearer?—It had rather a bad set-back though, had it not?

2906. Yes, after that it turned round and went down. I find the average rate for January of 1924 was 4.259. So there was an enormous decline?—Yes.

2907. The fact that sterling is practically within something like 3 per cent. of gold parity to-day, and that the South African pound is something like 3½ per cent. more valuable than the sterling pound, as measured by the banks' buying rates for telegraphic transfers, would mean that at the present time, as measured in gold, this country is practically at a parity, or perhaps even slightly above parity, dependent on which exchange rates you use?—Yes.
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2908. If sterling continues where it is the problem is practically solved, because sterling is nearly at parity and you are practically at parity; and the whole question then is how you are going to clinch it. One method of clinching it is to return to convertibility. Many people are hopeful that that situation will be maintained, and that sterling has risen this time to stay. But suppose sterling now should turn round and go down again as it did during 1923. After this country has gone through all the disturbances and all the hardships incidental to a very vigorous deflation over a period of years and has reached this gold parity; after it has reduced its price level to a lower point as compared with 1913 than any other country in the world apparently; after it has had its various labour difficulties and adjustments to a rising price level and then later to a falling price level; after all that, the question is, if Great Britain now, under pressure of one sort or another, should decide to turn around and let sterling go down, should this country say: "All right, we'll tie up with you and go wherever you go"?—All my convictions and inclinations would say no to that.

2909. You see, that is our question?—As I say, one would like to have really a complete grip of the available knowledge from the sources which might affect us; the influences that are at work in the United States or in Great Britain or on the continent.

2910. It is clearly impossible to have a complete picture, isn't it?—What I mean is that we should have a definite knowledge of what was the settled currency policy of the United States. They have these tremendous gold holdings, and they could shake the currencies of the world, if they chose to misuse their holdings.

2911. There is nothing about the future policy of the United States in this connexion that we can know for certain, but there are a few things we can perhaps make a reasonably scientific guess concerning. One is that the probabilities are rather remote, that the United States will, after impounding this gold for a period of years in order to prevent the evils of an inflation in the United States, which would have to be followed by a subsequent deflation when the world should return to the gold standard, suddenly change that policy. We have had, of course, in the United States an agitation for a long time on the part of certain inflationist groups, radical groups of one sort and another, that wanted America to release its gold, that wanted the Reserve Banks to lower their discount rates, to buy securities of all kinds in the open market, and open up the situation, in other words adopt a policy of very vigorous inflation?—Yes.

2912. The group that favoured that policy was perhaps more articulate through the La Follette party this last election than through any other party. And at the election held in November, the La Follette radical group was snowed under in a way that was surprising to nearly every one. They only carried one State—Mr. La Follette's own State. Both of the other parties in this election were conservative. The probabilities therefore seem strong that, with the republican party in power for four years now, there will be no important change in this gold policy during those four years. And it is reasonably to be expected, I should think, that Great Britain will be back to the gold basis before the end of that four year period, beginning next March. Personally, I don't think there is any likelihood that America will release this gold and adopt a policy of inflation during the next few years; and it seems to me that the more rapidly the rest of the world returns to the gold basis, the more insistent America will be not to inflate, with the prospect that if it should it would soon have to deflate again in order to meet the requirements of the rest of the world for returning to a gold basis?—An examination of the United States policy right through has given one a certain confidence in that direction, because they had it in their power to do very extraordinary things if they had chosen to do so; but they have not so chosen. Their policy has been rather a conservative one.
Then you have Germany recently, in carrying out the recommendations of the Dawes Committee Report, stabilizing the German mark. She has recently floated a large foreign loan of 800 million gold marks. She is said to have large funds in New York, partly as a result of that loan, and partly from other accumulations. The mark is pretty well stabilized with gold now, and seems to be a good prospect that it will continue stable with gold. Then you have a group of other countries which have recently gone back to the gold basis. And you have Canada and the Netherlands practically at par with gold now. You have Sweden back on the gold standard with some minor qualifications, and with exchange in Sweden at a point to-day which is apparently unfavourable to further exports of gold from that country. You have a great group of small countries, which have recently returned to the gold basis—the Republics of Colombia, Albania, Nicaragua, San Salvador, Haiti. You have Austria pretty nearly stabilized. You have Hungary nearly stabilized. You have had a remarkable stability of exchange even in Italy for some little time. You have Argentine moving back rapidly toward a gold basis. They are all encouragements to us.

They are all encouragements to you, and if those countries, some large and some small, most of them producing practically no gold with the exception of Colombia, which produces considerable gold; if those countries can reach stability and maintain it as some of them have been doing for some time, doesn't it look as if South Africa ought to be able to do the same?—I quite agree that she ought. I am only thankful that the final arbitration does not rest with me, which, I say, is a confession of cowardice.

But something has to be done. You will have the responsibility if you take the other tack also. Suppose this Commission should say: "No, we think because of the uncertainties of the situation, the country should tie up definitely with sterling, and should announce its policy of doing so," we would have to face a very big responsibility if we did that, because if sterling should turn around and go down in value and if this country should have to follow sterling down, it would mean that she would have to inflate, would it not?—Yes.

And in proportion as she inflated, she would tend to push up, with some lags, prices and the cost of living and, with perhaps a longer lag, wages. If you would adopt that policy, labour would be quite likely, would it not, to say that as the cost of living went up, they must have increasing wages?—Yes, certainly they would. They would insist on it.

Do you think increasing wages would be granted to them just for the asking, when they showed that the cost of living was going up, or would they have to fight for it?—They would have to fight for it, but they could exercise very great pressure, and it would be very difficult to resist them.

And a fight that would have to continue practically during the whole of the period that the cost of living was rising?—Yes, a constant fight.

At the present time the policy of Great Britain so far as it has been expressed at all, is expressed in the Cunliffe Committee's Report. That policy is that Great Britain is to get back to the gold basis at the earliest possible moment. But if Great Britain is able, and this country should inflate so as to follow her, and there should be some months of inflation, very substantial inflation, sooner or later you would reach the point that a halt would be called; and then this country as well as Great Britain would be confronted again with the problem of deflating, going back?—We would have the same old sick period to go through again. What we need is stability almost above everything else.

And then labour, having had its rise in wages?—Would fight against the fall.

And it would fight continually against the fall, would it not?—Yes.
2923. And that would mean labour troubles?—Labour trouble and industrial waste all round.

2924. Well then, if this Commission recommends now, and we must recommend something soon, that this Government adopt one policy or another; if we, in order to play safely, recommend that this country should stick to sterling, aren't we facing uncertainties and contingencies of an exceedingly serious character. And would it not take perhaps more courage, to face the uncertainties of announcing now that you are going to tie up with sterling, than to announce that you would tie up with gold, because you are already on a gold basis, practically, and the conservative thing to do is to stay where you are?—Yes, I think that is probably quite right. I feel that on the other side I should have more uncertainty; while we are following a general world tendency, we are on safe ground, and if we tried to break away from such a tendency, we might get very awkwardly cornered as a country. It is just the fact that the tendency is in the direction you have stated that makes one feel very much more confidence now than one would have felt several years ago when things were more uncertain.

2925. We will have to face the uncertainties, no matter which recommendation we make. We want to know, as long as we must make a decision, what decision, in your judgment, we should make?—Your first one.

2926. That is to return to gold?—Yes.

2927. That would mean that you would favour, viewing the situation as a whole, that this country resume gold payments 1st July next, and make an announcement to that effect at the earliest possible moment, so that the country may be prepared for it eventually?—I think definiteness is of the essence of the matter. The decision must be definite. I think a wobbling policy would be fatal.

2928. You would in favour of announcing definitely now that the present legislation should go into effect 1st July next, and that the country shall return to a gold basis at that time?—That, I think, is the trend of the argument and that, I think, is where it would lead me. I do not know how I could logically face the situation otherwise.

2929. (Dr. Vissering.) On the point as to whether the Reserve Bank should extend its operations, and enter actively into the open market, do you think it would be advisable, if that is not possible, to create a State bank?—I would sooner not express an opinion on that. I have really only very superficial views about it. I have known something of the working of the Australian State Bank.

2930. That is a commercial bank?—Yes, but under State aegis, shall we say. I know the working of our own bank here, our reserve bank, but I should not care to commit myself to any views as to a State bank. I do not know enough about the banking side of it to express an opinion.

2931. Have you any opinion about the way in which the commercial banks are working here?—I have followed the working of our commercial banks. I know they are by some authorities held up to severe stricture. I know their own position is that they are acting on the only sound banking principles. That is how they would express it. Whether they are right, or whether their critics are right, I cannot say.

2932. They are criticized by several parties?—For holding back industrial development, because of a conservative banking policy, working to the interests of the bank, and not in the interests of the country. That is the criticism.

2933. The criticism is also that they are maintaining rates at an arbitrary level?—Yes.

2934. As well as discount rates and exchange rates?—Yes, in their own interests practically. The monopoly of the banking interests is substantially in two hands. They have only to come
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to an easy understanding to work their will on the country. I am
not saying that that is so. I am simply saying that that is the
criticism.

2935. Do you think it would be desirable to break down this
monopoly?—I think monopolies have to be very carefully watched,
and possibly controlled. But I don't know that even a banking
monopoly is necessarily a bad thing. I would not care to say that;
although it is quite possible that an uncontrolled monopoly may
operate in the interests of the banks, and against the interests
of the country. I think that is possible.

2936. (Professor Kemmerer.) Do you think the commercial banks
in this matter are acting more in their own interests than in the
public interest?—I really have not enough knowledge of the facts
to say. I can only say that that is a constant criticism by people
who profess to know; people who believe that in the interests
of the country a very much more substantial increase of credit could
be afforded for development work.

2937. (Dr. Vissering.) As to the question of the way in which
the Reserve Bank is now acting: have you an opinion about the way
in which they are doing their business, for instance, in lowering
the rate of discount from 6 per cent. to 5½ per cent., and if they
have to go farther to compete with the other banks—of course, not
with the aim of competing, but only in the public interest?—As
they are constituted now, it must be a very difficult position for
the governors to judge, if they really enter into competition with
the commercial banks. It is rather putting them in an impossible
position, I think.

2938. In how far an impossible position?—In a sense they are
trustees of the credit of the country, and if you put the trustees
into the position of a competing bank, it seems to me that you are
putting them into a very difficult position.

2939. You are calling it competition, but is it really competi-
tion? It is not, of course, the duty of a central bank to compete
with the purpose of making a profit, or of taking the profits away
from the other banks?—No.

2940. But they have to come into the same working field as far
as the public interests warrant it. So, if they are coming into the
same working field, does that mean real competition, when the
aim is not competition?—No, it should mean development of our
resources. Even then it seems to me that the Bank is in a difficult
position. If you associate both functions in the one bank, it seems
to me you are putting it in a difficult position.

2941. You have the same question everywhere. For instance,
on the continent of Europe you have the central banks of Germany,
France, Belgium, Sweden, and Holland, and they have all to come
also into the open market to a certain extent?—Yes.

2942. The Bank of England is doing the same. They are dis-
counting from the market, and rediscounting in the market to
make their rate effective, and it is not with the aim of competing
with the other banks, but only in the public interest to make the
rates effective?—I feel that would depend, of course, to an almost
unlimited extent, upon the Reserve Bank, not only as acting as a
trustee of our credit, but also as acting as a banking trustee for
the interests of the country, and that is rather the point you are
making. But how far it is effectively to use those functions, I
really don't know. I am not sufficiently at home in banking
affairs to have an opinion that is worth expressing.

2943. Of course, the Reserve Bank so far has been in a very
delicate position, in that it has only been in existence for about
four years?—Yes.

2944. For many years the country did without a reserve bank;
now the bank has to find its way, and difficulties will naturally
arise with the commercial banks which were accustomed to do their
work without the assistance of the Reserve Bank. It is quite
different with the big central banks in Europe. They have found
the way already—for many years—for centuries; for instance, the
Bank of England. The United States Federal Reserve Bank—
experienced the same difficulties, and at a time when America was involved in the war, yet it is now generally acknowledged that they have done very good work.

2945. Have you an opinion about the question as to whether the Reserve Bank should become more active here in the Union than it has so far been?—I feel there ought to be some machinery for making it impossible for two big banks to work more or less hand in hand, as they might quite easily do in their own interests, against the possible interests of the country. One would imagine that the commercial banks would realize that their interests in the long view are tied up with those of the country, as well as that their primary interests are those of their shareholders and their own banking business. But I don’t know that one could feel that the national interests are finally safe in their hands. They may take a more conservative view than the circumstances justify. In a young country, that looks for development like this one, one would like to feel that there was more buoyancy in the situation. At the same time, I should be very much afraid of loosening banking operations from the real soundness which the Reserve Bank can give us. If we can steer a safe course between those two issues, I think we shall probably be doing the country a great deal of good.

2946. (Professor Kemmerer.)—You speak of the Reserve Bank as functioning as a sort of trustee for the public?—Yes.

2947. What do you consider to be proper trustee functions, using that term figuratively as I understand you used it, for such an institution to perform?—Whether I limit it simply to the negative quality of preventing inflation?

2948. No; just what would you include in its trustee functions?—Primarily the negative quality, that is to say, the prevention of an improper use of our credit.

2949. Suppose these two commercial banks here which do the lion’s share of the business and which seem to work together rather harmoniously, should decide to reduce their discount rates and extend their credit very rapidly. They would lend freely and expand their deposits; you might then have a very decided inflation of deposit currency, which would push up prices?—But which can be controlled at present.

2950. Would it be possible to control it if the two banks should agree?—It would be quite possible.

2951. One of these banks is a very strong bank, with ample funds available from abroad. These two banks, at the present time, have very large credits in England that they could operate with. If they should decide on that policy, it would be within their power to carry it out without any assistance from the Reserve Bank?—Yes, to an extent.

2952. If they should do that, and the Reserve Bank should say: “Well, it is our duty to put up our rediscount rate in order to check this,” and the other banks should say: “That is just a motion, it does not affect us at all; we don’t have to rediscount with you, we have ample funds of our own. We defy you, because we think your judgment is wrong.” Then the Reserve Bank, whose function is to prevent inflation, and to conserve the public interest, is perfectly helpless unless it can go out into the open market, and, perhaps, sell securities and bring this money in, or in some other way operate publicly, so as to contract the currency, and force these other banks into line. How can it do that, unless it is in a position to come out into the open market?—It would have to do it in the case of a bank which is financially strong and independent of it.

2953. That is the situation you are in now, isn’t it?—I suppose that it is, and that one must accept it as an argument for introducing banking functions outside the two big commercial banks.

2954. Even from the standpoint of emergencies, or the standpoint of anticipating emergencies and thereby preventing them from taking place, isn’t it necessary that any central bank must be in a position to make its rates effective, and in order to do that, it must be in a position to get out into the market and operate whenever the public interest so demands?—It must do in certain contingencies.
Mr. Clarence Wilfred Cousins.

2955. In the second place, a reserve bank, which was only a bankers' bank, and only providing funds for other banks in emergencies, would be in a rather difficult position, would it not, during normal times? Most times are more or less normal. Emergencies, fortunately, only come very infrequently. How is such a bank, if it cannot operate in the open market in normal times, going to pay its expenses and earn its dividends in normal times?—I suppose it is doing that now to a certain extent.

2956. To a certain extent. So, for these reasons, first to conserve the money market, protect the public interest, and make its rates effective, and second, to pay its expenses and perpetuate itself in normal times, it would seem to be necessary here, as it is in other countries, that the central bank should have ample powers of operating in the open market—which it does have now—and for it to exercise those powers whenever conditions require?—Yes; I think that is probably quite the position that really should be followed. One never wants to feel that that bank is going to let itself go, shall I say, in a speculative atmosphere.

2957. Of course. In a country where you have two or three commercial banks, and where there is criticism, whether justified or not, that these banks constitute to a considerable extent a monopoly of the banking business, and where you have, as a result of that criticism, a substantial and apparently increasing agitation in favour of a State bank to come in and compete with the other banks, and to protect the public in regard to discount rates, exchange rates, and other matters in which many people think the public are not getting exactly a fair deal, is it not likely that if that bank does not come in—the Reserve Bank I mean—and operate in the open market and perform those functions, that public opinion will become so strong in favour of the establishment of a bank that will do those things, that it will push this Reserve Bank 'off the map' and replace it by a State bank?—Yes, I think there is a danger there. We are not big enough to carry both. Very much bigger countries than ourselves do not carry both.

2958. Do you think a reserve bank of the type you have here, developed along the lines we have just been discussing, so that it could carry out open market operations more or less vigorously in the performance of its public functions, would be better than a State bank or not?—I should prefer, in this country, to see the thing under one control.

2959. Would you prefer the development of the Reserve Bank or its replacement by a State bank?—I should like to see our Reserve Bank retained and developed, certainly.

2960. In the discussions we have had heretofore, the point has been made repeatedly that, viewed from the standpoint of purchasing power as measured by index numbers, the South African pound has, apparently, been deflated more than the monetary unit of any other important country in the world. And in justification of that contention, it is pointed out that if you take the pre-war price level as 100, say, the price level of 1913 or early 1914 in various important countries of the world, you will find that the price level in South Africa to-day is lower than that in any other important country. I have the figures here covering a group of commodities as given by the League of Nations' recent Memorandum on Currency, which brings the data down to December, 1923; and I have obtained later figures which bring the data down to September or October in most cases of 1924. In each case the figures show that South Africa's price level is nearer to the 1913 price level than is that of any other country mentioned in this list of twenty-six countries. In America to-day, the price level is about 50 per cent. higher than 1913, as measured by the Bureau of Labour Statistics. South Africa's exchange rate to-day is practically at parity with the American exchange rate. If that is true, and if prices were adjusted in this country to the level in America, on the assumption that the same relative positions of the price levels should exist to-day in the two countries as existed in 1913, and if both were on gold parity, then your price level here to-day should be about 150, about the same as America?—Yes.
It is actually 133. That looks as if you had deflated not only to a gold basis, but that you had overdone the job. A number of people in commenting upon that point have contended that those figures exaggerate somewhat the degree of deflation in this country, because they claim that the price level in this country immediately preceding the war was abnormally high as compared with other years, and as compared with the proper relative position of this country among the other nations of the world. We would like your judgment on that. Is there any reason to believe that if you take 1913 or early 1914 as the base, that the evidence is that that base period was relatively high in this country as compared with other countries?—No, I think not. From 1910 to 1913 there was a gradual rise, but that rise was common right through the world as far as I can gather from the data. 1913 was quite possibly a prosperous year, but I should never call the condition of prosperity exaggerated. I do not think that argument would count against the facts.

You think it was a reasonably typical year?—Yes, a reasonably typical year, not greatly out of the ordinary. But suppose that any rise had been taking place: it had been a gradual rise during the course of the preceding four years. I think that rise was more or less common in other countries. I do not think we were going on a course of our own. I think we were following world conditions, and reflecting them to a certain extent.

Another point urged is that this country, being largely an agricultural and mining country, and having as its main products so far as export trade is concerned, agricultural and mineral products, would necessarily show in its index number a lower level now as compared with 1913 than other countries, because, in the index number here, agricultural and mineral products lump large; and that it is those products in the main that have declined most rapidly as compared with pre-war prices?—The raw materials?

Yes?—Raw materials usually face the fall first, don't they?

We have had this fall now for a considerable period of time?—It is more or less stable now.

That maladjustment of different groups is presumably more or less ironed out, isn't it?—By the present time, it is. Of course, there was a time when the difference was very much more marked than it is now, between the raw and the manufactured.

Your index number covers 188 odd commodities, does it not?—Yes.

And it includes?—Raw stuffs as well as manufactured products. I think it is a fairly representative group.

It does not include gold?—It does not include gold.

You believe it is a really representative group?—I believe it is.

Do you believe it is a group that may, roughly speaking, be reasonably compared with the Bureau of Labour index number in America, or the Board of Trade or Economist index number in Great Britain?—I should think it is, certainly. Of course, the conditions are different here. We are not really a manufacturing country such as England. But I think the statistics are as representative as we could possibly make them.

When you take a large number of commodities, there is a certain stability and safety in averages of large numbers. The average tends to eliminate little differences that might appear to the superficial observer as important?—That is one reason why we took a fairly large list in this country, because we realized there were not a few certain stable commodities to which we could tie ourselves.

You believe the group is sufficiently large and sufficiently representative to make your wholesale price index number comparable, since 1913, with those of most other countries?—Yes, I have complete confidence in that.

A gentleman appeared before this Commission a few days ago, who stated that, in giving evidence in the case of a dispute
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between the mines and labour a short time ago you stated that the estimates of the cost of living upon which wage adjustments should be based, should include prices of food, fuel, light, and rent, but should exclude prices of sundries, in which I understand is included clothing and boots, and a number of other more or less important items. He maintained that the exclusion of sundries in any way or number on the cost of living, which was used as a basis of wage adjustments, was very unfair to labour. We would like to have your judgment on that?—Very unfair to labour in the exceptional times through which we have been passing: that probably is quite right. But in the long run I don't know that it is. That was the basis of my statement. That in the long run the vagaries of fashion and their influence on the group of sundries were tremendous, that they were really rather inclined to vitiate the effect of the other groups which are based upon the essentials of life in regard to which there is very little possibility of variation of taste or fashion. As soon as you get away from the group which includes food, you get such an infinite variety of tastes that, if you were to take them as affecting the cost of living, you would introduce quite unnecessary uncertainty. I think taste has very much more to do with it really than the actual cost of the articles:

2975. The point was made in that discussion that the labouring man not only wants clothing and boots, but he wants certain of the little luxuries, the little conveniences of life, which, after all, make life worth living. And if you should have a situation, as has existed in the past, as existed, I know, in America for some time in recent years, that this group of miscellaneous items was rising more rapidly than many of the other groups, then the labouring man would suffer, and this would tend to drive his wages down to the mere necessities of life, and would automatically cut into his capacity to have the ordinary enjoyments of life, which again would mean a progressively inferior position for labour during such time as sundries were increasing more rapidly in price than other things?—That, as I say, will happen in a time of extraordinary rises such as we have passed through. I have always informed inquirers that, in my opinion, with the times they were passing through, they had to take into account sundries; but in the long run if there is a steady index number upon which to base any variations of wages, I thought they were safer to take these—the fundamental factors.

2976. Do you know of any case in other countries in which the index number of the cost of living has been used as a basis for adjusting wages where sundries have been deliberately excluded from that index number?—I know that my Australian colleague has always taken just the same position as I am taking as to the uncertainty of that factor, and always attempted to get them to face the situation on the other factors. How far he was forced out of that position by exceptional circumstances I don't know.

2977. So far as I know, in America, in cases where the cost of living index numbers have been used, the item of sundries, or as we call it, miscellaneous items has always been included. I would not venture to say that there have not been cases where they were excluded, but I do not know of any. I realize that there are uncertainties in these items. On the other hand the disadvantages and injustice that might result to labour if you have those items moving differently from the other items, are so serious, and labour's obvious claim that it might work an injustice would seem so equitable, that it is a question whether it would not be worth while in the long run just to face the disadvantages of a technical character there, and include sundries both for reasons of expediency and for reasons of justice?—My position was a little different. I gave the evidence referred to on occasions on which there was an attempt to force me to apply figures to certain conditions, a function outside my office and outside my knowledge. My position was this: "I give you certain facts, certain measurements of facts, and it is for you with your knowledge of the particular industry you are concerned with to apply those. I give
you certain facts in which I have confidence—those groups I have referred to. I also give you the others, and I tell you that in the long view I think you would be wise to cast these aside. But I admit that in the present conditions you must take some cognizance of them; though you must view them with a certain amount of caution." That is really the line I have taken. Whether in the light of longer experience one would say there are certain factors in sundries which we must take, certain elements in the clothing group, for example, which would provide a safe measurement, standard lines of clothing that might be taken as a standard, I am not prepared to say at the present time. But it is quite possible one might be able to take certain elements in regard to sundries in regard to which fashion plays a comparatively small part.

2978. Shoes and clothing are included in sundries?—Calicoes and blankets and things of that kind.

2979. We have a special group of clothes and clothing which is by itself?—When you have to grade up clothing of any kind it is very difficult.

2980. I appreciate that. I suppose though, in a large country like Great Britain or the United States, where you have so many large ready-made clothing establishments with more or less standardized clothing, it would be easier than in a country like this?—Yes. The variations in the standard here are extraordinary.

2981. What proportion of the labourers in South Africa, roughly speaking, are blacks, and what proportion are whites?—Taking the manufacturing industries and the mines and agriculture, one to four or five are white. I speak without reference to the actual figures.

2982. If there are four or five blacks, we'll say, to one white, isn't it important from the standpoint of statistical knowledge and of the adjustments that are going to be necessary from time to time for the future for this country to have some sort of wage index number for blacks as well as for whites?—Yes; but it would have to be a very different one to the white one.

2983. Exactly?—Their standards and their fashions are entirely different.

2984. Is anything being done now that you know of, in the direction of preparing an index number for wages of black labour, which can be continued from time to time?—No, there is not. But it is a very interesting suggestion and I imagine it would be quite useful. The economic position of the native is a very anxious subject of thought for the Native Affairs Commission at the present time.

2985. It has been stated before this Commission that during the period of rising prices black labour suffered even more than white labour, that the wages of white labour went up a little more closely in harmony with the rise in the cost of living, because white labour was organized, and was more articulate, whereas black labour was generally unorganized and was rather inarticulate; and that although black labour received some benefits through the fact that the labourer himself received in many cases his food and certain items in kind, none the less that represented only a minor fraction of his entire wages; that money wages did not increase anything like proportionately to the cost of living of black labour, or as much as it increased in the case of white labour, and therefore that the black labourer had more or less, because he was the weaker man, been compelled to take the gaff, as it were, during this period of rising prices, and that he suffered more than other classes?—That is true and not true. It is true on the face of it as far as those facts are concerned, but you have to face other considerations, that the white man has to earn his livelihood right through his life, that is, during his working years, 30 to 40 years. I suppose the average working years of a native are not more than 5 or 6 years. In that time he has obtained sufficient capital to establish himself permanently as a peasant, to get for himself enough cattle with which to keep himself going in his own country.
2986. With a standard of living with which he is satisfied—Yes. The one man may work 5 or 6 years and the other has to work 30.

2987. If the white man were satisfied with a much lower standard of living he could do the same?—Of course; but our whole object here is to raise the standard all round, white and black. Our real labour trouble at the present time is to secure a state of affairs in which the white man in certain industries and localities at any rate will do his own labouring work. So that there may be employment for all; a thing impossible under present conditions. So far, we have built up our system with sweated labour. Judged from the white standard, that is, and for European purposes, it has been a basis of sweated labour. If we had paid these wages to white men, it would have resolved itself into sweated labour. It is an extremely difficult—and an interesting—labour position to find ourselves in. If we are going to try and distinguish black labour from white labour in certain lines, it is going to be an experiment that no other country has yet tried. It is the only experiment that gives any promise at all of establishing a white civilization permanently in this country. It may be an attempt at interference with economic laws, and there may bring its own revenge upon us. The experiment will be otherwise. As far as I can see, it is the only chance this country has of throwing the dice in its own favour as to consolidating a position for white civilization; and that means establishing a higher standard of living, which a few of the natives will reach, but which will throw a great many natives back into agricultural and pastoral pursuits definitely. That, of course, is going to provide a tendency for political trouble with the natives. But it ought not to be allowed to do so. We may be only able to face the position on the basis of a wage bill, which will probably be brought into Parliament this next session. But it will afford onlookers like yourselves a very interesting study of an attempt to deal with an almost unique ethnical question.

2988. We have no other questions to ask you, but if you have any comments to make on any point we have not covered, we would be glad to have them—No, I sit as a disciple in the presence of my masters.

SATURDAY, 27TH DECEMBER, 1924.

MR. WILLIAM HENRY CLEGG AND MR. HENDRIK CHRISTIAAN JORISSEN (examined).

2989. (Professor Kemmerer.) What is your present position, Mr. Clegg?—Governor of the South African Reserve Bank and Chairman of the Board ex officio.

2990. How long have you been in South Africa?—Nearly four years.

2991. During all that time you have held your present position as governor of the Reserve Bank?—Yes.

2992. Before coming to South Africa, what was your business?—I was chief accountant of the Bank of England.

2993. How long were you with the Bank of England?—Thirty-four years.

2994. You understand that the chief problem that has been placed before this Commission and upon which we are asked to advise the South African Government is the question of the advisability or inadvisability of South Africa's returning to a gold basis irrespective of the action that may be taken by Great Britain on 1st July next?—Yes.

2995. We would like first to ask the question as to whether, in your judgment, it is desirable that whatever action is decided upon should be decided upon promptly and publicly announced at the earliest possible date so as to enable the country to know what to expect and to make the necessary adjustments?—Yes, I think so.
Mr. William Henry Clegh and Mr. Hendrik Christiaan Jorissen.

2996. You think, whatever action is to be taken, it is desirable to have an early decision, and a prompt public announcement?—Yes, I think so.

2997. Do you think it would be advisable for the Government then to decide now, or in the very near future, definitely to return to the gold basis 1st July next, or do you advise some other course?—I don't advise going back absolutely to the gold basis.

2998. Why?—I have two main reasons. One is, I think, that the adjustment of the internal purchasing power to an appreciated external purchasing power either does not take place with any accuracy or lags a very long way behind. That is my first reason.

2999. We would like your reasons for believing that, because it is a subject upon which we have found there is considerable difference of opinion. There seems to be no dispute over the claim that there is a lag in the adjustment of the internal purchasing power of money to alterations in exchange rates, but there seems to be considerable difference of opinion as to the degree of that lag?—My reasons for believing that are very largely what I have been told as to the general practice of merchants in this country, personal conversations with people in different parts of the country as to the habits and practices of merchants, the fact that the credit system of the country is largely one of the open account, and, therefore, the storekeepers are very largely in the hands of the merchants, and that, therefore, there is not real competition between the various merchants who supply the up-country storekeepers.

3000. Your judgment is, if the value of the pound sterling moves up or down in its gold value or its value in terms of goods, and the exchange rates here follow those movements perhaps with some degree of sluggishness, that price adjustments and wages lag behind those movements both on the upward trend and on the downward trend?—I don't think that on the downward trend, that is, when the exchange tends to go against South Africa, the lag is so great as when it is the other way.

3001. We asked the Bureau of Census and Statistics to prepare us various figures on the basis of their studies of prices in this country, and we have had these figures charted. The wholesale index numbers of South Africa cover some 188 commodities. They have been very carefully prepared and represent all kinds of commodities. Then they have been divided into separate groups. This chart which I have here covers wholesale prices of the Union of South Africa classified as all commodities, South African products, and imported goods, and the last group is compared with the "Economist" index number of England, which moves much the same as the Wholesale of Trade index numbers. This dotted line (illustrating) is the United Kingdom "Economist" index number. This solid line (illustrating) is the index number of imported goods into South Africa. If you follow that from 1914 you will note that there is a remarkable correlation on this upward move; apparently almost as quickly as there is a rise in prices in Great Britain there is a rise in prices here. Here, in some cases, there is a little lag; in other cases the rise is pretty prompt. Here, for example, in 1919 Great Britain prices reached their maximum in the first quarter of 1920, and in South Africa prices didn't reach their maximum until somewhat later, apparently between the second and third quarter. But in the main there is a remarkable correlation, and the lag is normally a matter of a month or two months. It appears, therefore, that on the upward movement the tendency is for South African merchants to advance their prices pretty nearly as soon as they are advanced in London. They revalue their goods on the basis of the cost of new purchases?—Yes.

3002. When it comes to the decline, the South African merchants apparently do what merchants do everywhere else in the world, namely, they maintain their prices until competition forces them to pass on the benefits of the decline to the public; that is, they don't reduce their prices at once when prices come down in England. There is a somewhat longer lag here. We have
questioned the Bureau of Census and Statistics people and others carefully with regard to this chart and the figures upon which it is based, and the evidence seems to be that there is an average lag of something like three months, possibly a little more. But when the prices do come down in England, they come down here pretty nearly to the same extent; and, in fact, they have come down to a greater extent a number of times, for the evidence we have is that South Africa has been deflated much more than England has, or even the United States has?—You have a lag there of nine months [illustrating].

3003. It began to move down here the middle of December. English prices began their decline in April. That is one of the longest lags. Then here again you have quite a lag [illustrating]; there is a varying lag; in some cases the adjustment is very prompt, in some cases it is slow, but in all cases it is a matter of, I suppose, anywhere from one to two months as a minimum up to eight or nine months as a maximum. There are undoubtedly some articles there that would respond much more slowly than others. This is the average group, and the Census people said, as I recall, that the lag evidence we have is that an average lag of something like three months. There is undoubtedly some articles there that would respond much more slowly than others. This is the average group, and the Census people said, as I recall, that the lag was about three months on the average, so that it looks from this evidence, and this is in harmony with the experience I know we have in the United States, and with some of the figures Professor Nicholson has prepared for England, that the tendency is for a response fairly quickly, but with a lag of a few months, and perhaps a varying lag at different stages dependent on different conditions in the money market?—Yes.

3004. If that is true, the benefit that would accrue to one group, and the loss that would accrue to the other group—for when an importer gains by a lag the exporter loses presumably, and vice versa—is, after all, a matter of a comparatively few months?—Yes, if you can rely upon those figures, they seem to prove that. At the same time, I should like to say that I have been for two years running to the Associated Chambers of Commerce annual meeting and addressed them on this very subject. The whole tenor of my addresses was that prices do not respond. I have had so many complaints from all over the country that they do not respond from people who have been interested in my endeavours to get rid of the open account system and to introduce the bill system. The burden of my remarks was that merchants don't make their prices correspond to exchange prices, that is, they don't pass on the benefits of exchange. No one told me that I was inaccurate. On the contrary, a great many people came up and admitted it was true.

3005. Isn't your experience like my own, namely, that the man who agrees with you comes up and tells you about it; but the fellow who disagrees with you remains inarticulate at first, but may suddenly spring his opposition at a later time in some unexpected way? We have had a number of witnesses on this subject. We had some in London. We had some here. And we find very decided differences of opinion. We find many people say that competition here among wholesalers is very keen, and that this country has altogether too many retailers, that the competition among the small retailers is also very keen, and that only advantages that the wholesaler may get from the exchange lag he is forced quickly to pass on to the retailer; and even more quickly perhaps the retailer is forced to pass it to the consumer. So this is a subject about which we ask every one and upon which we have asked the Census people to give us all the data available. The data available from the Census Department, and those are the most scientific data we have, seem to show a fairly close response, and I am pretty certain that that is the experience in most other advanced countries?—I think you have to draw a distinction between the goods supplied to the Johannesburg mining houses, which, of course, constitute a large proportion of the total imports. I have no doubt the competition there is very great, and that the purchasers do get the benefit of the exchange. I am thinking rather from the ordinary producers' point of view, the small farmer, and so on, all over the country.
Mr. William Henry Clegg and Mr. Hendrik Christiaan Jorissen.

3006. During the war, and after the war, a great many of the purchases that were made for the gold mining industry here were made through a central organization which bought under special facilities and on special terms. (Addressing Mr. Pearsall.)

Were the prices at which they bought under this special arrangement included in this index number or are these just open market prices?

3007. (Mr. Pearsall.) I think open market prices. The amount of the exchange is not very large.

3008. (Professor Kemmerer.) It is also true, is it not, that the average small merchant, even the average wholesaler, does not always know whether he is passing on a benefit or not. He is faced with market competition which is strong on some articles and weaker on others, which is strong in some parts of the country, and weak in others. He is forced to meet that competition and to adapt to those conditions. Whether or not he passes on directly a particular gain that he gets, it is pretty hard to say. None the less, he sees what his profits are right along, and he sees when a competitor is underselling him; and he reduces his price to meet that competition. It may very well be that the competitor made the reduction because he found he was realizing larger profits but did not exactly trace the source from which they came. They might have come from exchange. Don't you think there is pretty strong competition here among wholesalers?—(Mr. Clegg.)

I think for the big business in Johannesburg. I should not have thought there was in the smaller business all over the country.

3009. I have found this at Home, that when the cost of living index numbers were showing a great decline, people pretty generally said: "We don't see where the decline is. We don't see when we go to our grocer or meatshop or whatnot that we are getting this reduction that the index figures show." Of course, there is often a difference between small places and large places in that regard. And in the second place, people don't remember what prices they are paying for a great variety of things which they are buying right along. In that particular regard, I think we are ordinarily much more impressed if a merchant puts up the price than we are if there is a reduction. We remember the bad side and we sort of slide over the good?—That is as a rule perfectly true. But I personally have had a keenness not only from my own private pocket point of view, but also from the point of view of the general position in South Africa, in watching the prices of the things I personally bought. Of course, it is a very small range. I must say, that in a town like Pretoria, for instance, there seems to be very little competition.

3010. (Dr. Vissering.) I have been told that you can bring the prices down by what you call haggling. Would that be one of the reasons that prices are too high here?—Sometimes you can do that.

3011. (Professor Kemmerer.) When there is a rise in the exchange rate—I speak in terms of the value of £100 sterling, we'll say, expressed in terms of pounds South African—you have a certain benefit to the exporters, and when there is a fall, there is a benefit to the importer. This benefit to one group or the other, through the lag, is only temporary, is it not?—Yes.

3012. That is, if South Africa should permanently stabilize on a different monetary unit from Great Britain, neither the exporter nor the importer would gain any permanent advantage by it. I don't suppose France, in her competition with Germany before the war, had any particular advantage from the fact that the franc was worth only four-fifths what the mark was worth. The advantages and disadvantages are a result of a temporary lag, and are due to maladjustments during a period in which forces are working toward a new equilibrium?—Yes.

3013. When exchange goes one way, the exporter benefits and the importer suffers; when it goes the other way, the importer benefits and the exporter suffers. When it is stable for a reasonable length of time neither party benefits nor suffers. So that any benefits that might accrue from a fluctuating exchange would be
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temporary, and would only continue during the period of the
fluctuation, and for a few months afterwards at best, until the
adjustments were made. Isn’t that rather a weak reed for a
country to base its monetary policy upon. In order that the
exporter, for example, should continue to benefit you would have
to have your money depreciating continuously, and the minute
you stopped it the benefit would tend to stop. No one is arguing,
so far as I can see, that South Africa should adopt a policy of
continuous depreciation in order to benefit one interest, or con-
tinuous appreciation in order to benefit another interest. It isn’t
the question of a falling exchange or a rising exchange. Isn’t
that true?—Yes, but of course I think the circumstances in South
Africa are rather different from those in most countries, because
you have ingrained in the minds of South Africans that the pound
South African and the pound sterling are one and the same thing.
Before the war there was never anything more than a commission
really—I suppose it was between the gold points. But my difficulty
has always been, if you have got an exchange between South
Africa and Great Britain which is continually fluctuating, as
sterling fluctuates with the dollar, you must expect it to go up
and down and up and down; whether the consumer will not
suffer by reason of a maladjustment or a lag which, perhaps,
has no chance of being caught up with, because the exchange will
in the meantime have gone the other way.

3014. Even there you have one group of interests, the labour-
ning group we’ll say, who have suffered quite decidedly according
to reports that come to us, because of the failure of wages to
respond to prices and the cost of living when the pound
depreciated and when the prices moved up at such a rapid rate.
The benefits, whatever they were, that
people that provided local supplies. Then on the other hand, when
you turn around and begin to go down, i.e. your currency appreci-
ates, there is likewise a lag there, and the benefits from this lag like-
wise are probably not passed on as promptly as they should be. One
group suffers from the lag in one direction and the other group
suffers from the lag in the other direction. But in any case,
when you have great instability, uncertainty, risks, isn’t it likely
that every party concerned will, as far as possible, try to compensate
himself for those risks by demanding better returns; that is,
every party, so far as he can, demands an insurance against these
uncertainties and tries to add it to the price of the thing he is
selling, and does so as far as he can?—Yes.

3015. Uncertainty is generally an item of expense in any
economic system?—Yes.

3016. If sterling is unstable in value, moving up and down
in terms of goods and in terms of gold, and this country follows
sterling, it may have a fairly fixed rate of exchange with sterling,
but at the expense of instability in its local prices, instability in
its local wages, instability in the value of all contracts, all
accumulated savings accounts, insurance obligations and what not,
and instability in all the other exchanges except the exchanges
that are tied up with sterling?—Yes.

3017. It is perfectly possible, for example, during the war—I
believe it was true, although I am not sure of this—that there
may have been a time when the German mark was depreciating
at a very rapid rate, and the Austrian crown was depreciating at
about the same rate. It is possible that you might have had
very nice stability between these two, when the two countries were
dealing more or less extensively with each other, and yet no one
would have said, in an extreme case like that, that that sort of
stability was worth the price that probably they had to pay in the
form of instability in everything else?—I quite appreciate all
you say about the disadvantages of being absolutely linked to
sterling. But my idea would be not to link ourselves with sterling.
3018. What is your suggestion, then?—My suggestion would be that South Africa should refuse to follow sterling beyond a certain point. I am not prepared to submit any particular point as the ideal point. But supposing South Africa were to say that we would not allow the South African pound to depreciate more than 10 per cent.

3019. Let me interrupt you there. If this Commission should accept a proposition of that kind, we would be under an obligation to say to the Government: "You should fix a certain point." I don't think it would be proper for us to say, "We recommend that you don't tie up with gold, and we recommend that you don't positively tie up with sterling, but we recommend that you follow sterling up to a certain point, which we are not in a position to state." We must state a definite point, if we adopt such a policy. You are the first person that has made that suggestion, so we would like to have from you an idea about what point you would recommend?—I should say, just as an example, about 10 per cent.

3020. (Dr. Vissering.) Then you would allow a new inflation of about 10 per cent.?—Yes, if it came. I am thinking of the general risks. I quite agree that it is inadvisable, supposing some disaster happened in Europe, and inflation again occurred in Great Britain, and the price of the pound sterling depreciated in relation to gold, to allow that to be reflected in South Africa. But I think the advantages of being stable with sterling are so great that it would be worth while to run that risk of a 10 per cent. depreciation. When you go beyond that 10 per cent. depreciation you would have to take your own course; and whatever were the disadvantages of disliking yourself from stability, you would have to face them, because those disadvantages would be less than the disadvantages of allowing your pound to depreciate beyond that point.

3021. (Professor Kemmerer.) Suppose this country should say: "We'll tie up with sterling, and follow her where she goes, down to 10 per cent. depreciation, but beyond that we will not go." After she had done that, and if the South African pound should actually reach a 10 per cent. depreciation in terms of gold, do you think that public opinion in this country would then permit South Africa to say: "We'll stop there. Sterling, apparently, is going on down. We must break with sterling and turn around now on our own, and go back, with all the difficulties that a long period of deflation involves." Do you think public opinion would permit that? You have probably read some time ago the article by Professor Cannan, in which he said that in the case of an inconvertible currency, when one was talking about a return to convertibility, it was always a case of 'jam yesterday and jam to-morrow,' but never jam to-day." I am afraid that has been the experience of the world pretty generally. I am afraid if you should turn around now and follow sterling down to 10 per cent. below gold parity, when you got there you would have been tied up so effectively and so long that it would be very difficult to break then. We were talking the other day, in London, with the Secretary for Finance in Egypt. He said they tied up with sterling in the early days—whether wisely or not he was not sure—but he said now they could not break with sterling if they wanted to?—They tied themselves up in a way in which we should not be tied up at all. They tied themselves by basing their note issue on British Treasury bills. I don't propose anything of that sort.

3022. Do you think, if you got down to 10 per cent. below the present rate, that it would be politically possible for this country then to break and go away from sterling at a time when it was away from gold and from every other money unit of importance in the world, and to deflate to parity?—Yes, I think it would be as possible as it would be to go to gold now and say you are going to stick there.

3023. You are practically at gold now. It is just a matter of sticking where you are?—That is so.

3024. About what is the market rate of interest in this country on really high grade securities, gilt-edged stock?—For loans?
You change values of mortgage which benefited if depreciate to an extent. It has been ruling for the last two years. The rate was pegged during the war, and then it turned around and went up to a maximum level of 3.95 or so. Then it dropped from the pegged rate of 4.74 in round numbers. It came down by February, 1920, to 3.30. Then it turned around and went down again to 3.30. Then by June, 1921, it came up to 3.97. Then in August it dropped again. Then it turned upward in August-September, 1921. It moved upward almost continuously there after the fall of 1921 until it reached an average monthly rate for March, 1923, of 4.69; and it actually reached one day a rate of 4.72½ at that time within about 3 per cent. of parity. There was then a general feeling that gold parity would be clinched. But the rate then turned around, and during 1923 it dropped from about 4.70 until it struck an average of 4.26 in January, 1924, after it had been up higher than you have been this year?—Yes.

Then during 1924 sterling has moved upward something like 10 per cent. and now is within 3 per cent. or so of parity?—Yes.

So that if you take the experience since the war, one has reason to be somewhat doubtful as to the ability of Great Britain to clinch this present high rate, or as to the probability of stability in the future. I think we generally expect they are going to do it, and hope so, but you would have no very high degree of assurance to that effect?—No.

You say the rate of interest on high grade loans here is about 6½ per cent.?—That is the rate of the commercial banks.

My point is, if you would permit a depreciation of 10 per cent. before you stopped it, and if you assumed that gold and commodities stayed together, then it would not be at all impossible for you to follow sterling down 10 per cent. within a year's time. You followed it up in its gold value 10 per cent. in a year's time in 1924. Think of what following sterling down 10 per cent. in a year would mean. It would mean as far as purchasing power goes, if gold continued reasonably stable in value, that you would have changed your interest rate actually in terms of goods and commodities from a 6½ per cent. positive rate to a negative interest rate of about 3 odd per cent.?—Yes.

Every creditor would be receiving back, even when he received his principal and his interest at the end of the year, actually a purchasing power 3 to 3¼ per cent. less than he gave. You would have wiped out, for the creditor, as far as the year's contracts were concerned—and I am taking an extreme case—all the interest, and more too?—Yes.

If you stayed down any considerable length of time, you would be wiping out or transferring a great many other values. Every bond payable in this money would be depreciated in value during that time; every insurance policy, every banking account, every pension. Furthermore, the wages of Government employees and others, which ordinarily respond very slowly to changes in the purchasing power of your unit, would have been cut down. The price you would be paying for permitting your currency to depreciate to an extent like that is enormous, in loss of values, or, more correctly, in the transfer of values from one class to another, taking from one and giving to the other, without justice, without equity, more or less blindly. Then, after you had done that, if you should succeed in stopping there for a while, and then go up, you would have all the hardships of deflation, and all the penalties which deflation imposes on the debtor class. The fellow who benefited on the other turn would now lose. The man who has a mortgage on his farm would be compelled to pay, if you went back in a year, 10 per cent. more than he would have earlier. You change values of every kind throughout the country, and you
bring in maladjustments of prices, and maladjustment of wages, with all their consequences, which is a pretty serious proposition. It is an enormous responsibility to put upon a Commission of this kind—to advise a policy that might, in the course of a year's time, or two years' time, result in such tremendous changes in the values of all sorts of funded incomes.

3034. (Dr. Visering.) How could you limit your allowance for an inflation to 10 per cent. As circumstances are, you always have a lag?—You would have to take the same steps in advance, as you would if you would go back to gold. My idea in this regard is that it would be extremely difficult to go back to gold and keep there. But I am not in favour of simply sticking to sterling. I say, let us hope that sterling is going up, and going to resume gold parity. That is the best thing we can hope for. But if she does not, then we shall have to face the music, and we shall have to take steps beforehand, long in advance, to stabilize our currency.

3035. (Professor Kemmerer.) If you can stop a decline at 10 per cent., and hold it there, or, if you can stop a decline at 10 per cent., and then push the rate back to parity, then it would seem that the very forces that would enable you to do that would enable you to stop the decline at parity, and to hold the rate at parity. I don't see why, if you can do the one, that you cannot do the other?—In the one case you have not a possibility of an attack upon your gold reserves; in the other case you have. Supposing you said: 'We won't go down below 4.70.' You might be able to keep the value of the South African pound, say, at 4.70 better than you can keep it at 4.86, because at 4.86 you would be liable to have an attack on your gold reserves; at 4.70 you would not.

3036. Of course, the cross-rate now for some time has been in the neighbourhood of 4.69, 4.70, or 4.71, that is, within 3½ per cent. of parity. And your banks' buying rate is, I believe, 3½ per cent. discount, so that if sterling should remain where it is, and you remain in the same relationship to sterling as you are, you are at parity. You have been maintaining it pretty well. I wish you would develop this point of the drain of gold, because to an outsider who has been taught to think of South Africa as the greatest gold-producing country in the world, and a country which can tap the gold at its source, it seems strange that this country is in danger of being deprived of its gold, when all sorts of little countries that don't have any gold production at all are maintaining the gold standard without difficulty?—I cannot see how the mere fact that South Africa produces a certain amount of gold, with which she pays largely for her imports, puts her in a better position. Any country can buy gold now at a price, if it wants it.

3037. And South Africa certainly can keep gold at a price at any time on the same principle?—Yes, but supposing the value of the South African pound, owing to exchange difficulties, becomes worth less than gold. Will you not have a drain of gold from your banking reserves?

3038. If the South African pound should become worth less than gold, if you should continue to import more than you export, or speculate in exchange because the value of your South African pound is depreciating, I suppose the first thing that would happen would be a reduction of these big balances abroad before any specie would be taken out; and the more those were reduced the more likelihood there would be that the banks could adjust their rates so as to check further outflow?—Yes.

3039. But why does the gold go out under those circumstances? Simply because it is worth less here than it is abroad by enough to pay the expenses of transportation and yield a profit. That is the same reason that mealies go out, or anything else goes out. And the more it goes out, the scarcer it becomes here, and, therefore, the more valuable in terms of sterling and of goods. This brings down your exchange rates. I don't see why a country should export all its gold, and break its gold standard, any more than
she should export all her mealies, and starve to death. In either 
case the price adjusts as the supply is reduced. The commodity 
soon becomes so scarce here that it does 
It only keeps going out until equilibrium is re-established. 

Take the case of Sweden lately: When Sweden returned to the 
qualified gold basis, apparently her price level and her exchange 
rates represented a little inflation. She had not quite deflated 
to gold parity. In order to reach gold parity in her purchasing 
power, and in her exchange rates, some gold had to go out. As 
the gold went out, gold became more valuable, and she deflated 
to gold parity. Then the outflow stopped—Didn't Sweden have 
to raise a 
loan of 25 million dollars in America in order to keep 
her gold?

3040. Not that I know of.

(Dr. Vissering.) Yes.

3041. (Professor Kemmerer.) That was before she stabilized, 
but not at the time of which I am now speaking. She is all right 
now?—Did she not do that in preparation of going back to gold?

3042. Yes, I think she did. Let us suppose your exchange 
rates here, and your price level here, were higher than in England, 
higher than the United States and other countries, the evidence 
from that would be that you had not deflated to gold parity. 
Then, your gold would be worth less here than abroad, and the 
mines would not put their gold into the 
and in about two months' time, owing to the fact that the 
banks in London had not got the amounts paid in to them 
big balances in London. These balances would be depleted 
soon lose 
outflow.

3043. As near as I can make out, gold only goes out when it is 
redundant, and it is generally pushed out by inflation and not 
drawn out by some outside force. It goes out to maintain equi­
librium. It is part of the process of adjustment. That is perfectly 
true before the war, when gold flowed freely from one country 

3044. Why not?—Take a case like this: Supposing the bank­
ers' balances in London had been reduced to practically nothing; 
Supposing they got rid of their excessive balances in London, and 
there was a tide of imports here, and the bankers had not got 

3045. Let us see what would happen there. These bankers have 
big balances in London. These balances would be depleted because 
there was an excess of imports over exports, so you allow for 
visible and invisible items?—Yes. May I just say: supposing we 
were at parity here, the mines here would put their gold into the 
mint and in about two months' time, owing to the fact that the 
the balances in London had not got the amounts paid in to them which 
the mines require out here by telegraphic transfer, they would very 
soon lose their balances.

3046. Assuming you are importing in one way and another 
more than you are exporting and as a result your balances go 
down in London?—Yes.

3047. When the balances go down in London, they are with­
drawn there because of payments made here; that is, you don't 
give the money out there without receiving something here?—No.

3048. If you pay out sterling credits in London, you receive 
here either gold or notes which reduce your liabilities, or cheques 
on other banks, which reduce their deposits with you and reduce 
their reserves; that is, you pay out there and receive here?—

3049. If you pile up gold here, then you are in a position to 
export that gold. When you export gold you don't have to 
reduce your balances there. When you reduce your balances, you 
don't have to export gold. And just in proportion as you 
reduce your balances over there and pile up funds here, the 
tendency is. I should think, to advance the rates that you are 
going to charge for import bills, and in proportion as the gold 
goes out, you would advance your rates, and your rates would 
rebound the outflow. Gold would soon be worth more here than abroad.
That worked before the war. I don't see what the changed conditions are that would prevent it from working now. In what respect are conditions different now from what they were before the war, so as to prevent the normal workings of these fundamental forces now, which were working before the war in such a way as to protect your currency?—I should say the difference is you haven't got a free gold market. Gold does not flow freely in and out of the chief commercial centres.

Before the war there were a good many countries that were not on a gold basis. There were some countries that were on a gold basis that did not have free gold markets. Now you have a number of countries that have free gold markets, although the United States is the only very important one. But in the United States there is an absolutely free gold market. America has 45 per cent. to 50 per cent. of the world's supply of monetary gold. It will let it go out and not only let it go out, but encourage its exportation at any time and let it come in freely when market conditions are favourable. So, you have an important free gold market, perhaps not as broad as it was before, but you have one operating and functioning satisfactorily so far as I know. It is a question of degree.—You refer there to piling up gold here. but I don't see that we should pile up any gold here.

What would happen if imports in this country for a considerable time exceeded exports? Would not that result in either increasing your reserves here in the absolute sense, or in so decreasing your liabilities as to result in an increasing percentage of reserves to liabilities?—So far as I can see, if we had an excess of imports over exports for any considerable period and we were on a gold basis, it would mean that the commercial banks would have to depreciate the value of the South African pound in order to be able to attract sterling balances; and if they depreciate so that it was worth less than gold, gold would begin to flow out from this country.

Before you reached that stage, would not this have taken place: the heavy purchases of drafts with which to pay for imports over and above the bills that were available in connexion with exports would have resulted in reducing your balances abroad and increasing your funds here?—No. I don't think so.

That is, when you sell drafts on England, you reduce the funds available there and you receive your pay here, do you not?—If the banks buy import bills, they reduce their balances there, but very often they make advances in order to meet those bills, and don't increase their funds here.

I don't visualize this. If I come to any bank here and say: "I wish a draft on London for £1,000 sterling," I must pay for that draft, and if I pay for that draft I may pay for it in a number of ways; by handing in gold to the bank or by giving notes or by drawing a cheque on my bank. If I did that, I would reduce my balance by that much and that would strengthen the reserve position of the bank materially. If I bought from you, the Reserve Bank, and gave you a cheque on a commercial bank, I would reduce their balances with you, reduce their reserve position and tighten the thing up and give you more funds?—Yes, but what happens in this country as a rule, I think, is that those bills would be bought in London by the banks. They would not be paid for over here until maturity.

Explain how that would happen. Certainly if they take funds out over there they must pay these banks either funds here or funds in London. If the pay funds in London, these funds are an offset to what they take out. If they pay out funds here, that strengthens the position of the banks here?—As a rule, they don't pay out funds here.

Then in London?—No. It is a credit.

Then the one off-sets the other. That does not weaken your position?—You part with funds there, but don't increase funds here. You may perhaps increase your proportion of the reserves.
3058. You don't give something away for nothing. If you reduce a balance some place, you get something in return for it. And if as a result of reducing balances there accumulated with an undue amount of South African funds, the tendency would be for you to say: "We'll jack-up our rates." If that isn't effective, you reach the point when gold must go out?—Yes.

3059. When gold goes out that tightens up the market?—Yes. And sooner or later the point is reached, as the exchange moves back, at which it isn't profitable to export gold here any more because gold is worth more here than there. I take it that it would not mean that you would be importing gold to any extent or exporting gold specie to any large extent, but at one time you would be tapping a little more here of your local supply of gold for specie for the banks, and at other times you would not need to tap it; you would let more and more gold go out—

I admit in the long run that must take place, but our funds here are not very big. Our gold reserve is not a very big one.

3061. What is your gold reserve?—Roughly ten millions.

3062. What is your note circulation?—It is eleven millions. Of course, we have deposits.

3064. What are your demand deposits?—About five millions.

3065.—I should think that would be a pretty substantial reserve? We have about 70 per cent.

3066. The object of a Reserve Bank is to serve as a sort of buffer, is it not? If you have too much money in circulation, or too much credit, then your monetary unit becomes cheap, cheaper here than abroad, and money tends to go out. You cannot export your notes, you cannot export your silver, and so the thing that must be exported is gold. And you just export enough to take up that slack, to contract the currency until you reach the point when your money is so scarce here that it is worth more here than abroad; and then it stops going out. All you need ordinarily in most countries is just enough to take up the slack between the busy season and the slack season of the year; and in case of great emergency, like a financial crisis or a great depression, which would represent a situation when you would need much less money and have heavy payments abroad, then you must have a factor of safety to enable you to go down further. But there are not many countries which from season to season or even from periods of prosperity to periods of adversity, that would need to contract their currency over 25 per cent. That would be an enormous figure for most countries?—You must remember that if we are down close to 40 per cent. it means a 24 per cent. reduction.

3067. The deficiency reserve tax is not very serious?—I mean to say 24 times the amount of gold withdrawn.

3068. That is another factor that would tend to tighten up the market pretty vigorously, that is, when you reach the 40 per cent. point, you have an increasing pressure not to export more. This tax is a factor which gives a more or less artificial boost to the value of gold here?—Yes.

3069. And you can go down indefinitely by paying your tax. can you not?—Yes.

3070. And that tax is only so much per annum, and ordinarily these adjustments are a matter of a few weeks. Even if you have a fairly substantial tax to pay for a few weeks, it would not be very much over a year on the basis of an annual rate, and it might very well come out of the Government and not out of the bank anyway?—Supposing you had a gold standard and we are paying out our wages in gold, would there not be a continual leakage of gold from our reserves? That is one of the points I find difficulty about.

3071. I suppose in any country you would have that, that is, a certain leakage of gold due to hoarding, or due to abrasion or whatnot. And in a country like this, where gold would go over into Portuguese Africa, and so on, there would be a leakage right along. But a country that is producing £40,000,000 sterling of gold a year, and marketing this gold all over the world, in the
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best markets possible. I should think would rather welcome a leakage of that kind?—Well, would they? Because you have got to use all the gold you have to pay for your imports. Suppose you got a leakage of two or three millions a year from your banking reserve, you could make that up, it is perfectly true; by buying gold from the mines, but you could not use that gold both as banking reserve and to pay for your imports.

3072. You say you must use your gold to pay for your imports. I might say you must have imports to compensate you for the gold you are exporting. The imports of a country are not a fixed thing at all. The imports vary according to prices here and abroad, and according to the exchange rates, which are elements in the prices. Before you had any production of gold in this country you didn’t have to pay gold for your imports. You didn’t import so much. You can pay for imports with mealies, with diamonds, with fruit, with anything which foreign markets will buy from you. You pay for them in the thing that you can export to the best advantage. At one time it may pay you to export more gold, at another time gold may be so tight that it would pay you to export more mealies at the current market price; at another time to export more of something else; and at another time you may reach the point when all these things are so important to the country that the worst thing for it to do in the circumstances is to curtail imports.—No reply.}

3073. (Dr. Vissering.) Why should you pay wages in gold?—For instance, in Switzerland, in Holland, and in Sweden they don’t pay wages in gold?—Would they not demand gold?

3074. Is it not better to hold gold in the vaults of the central bank than allow it to come into circulation?—Yes.

3075. I expect that the new monetary policy in England will not create gold?—Can you resist that demand for circulation if you are on a gold basis?

3076. Why not?—Anybody can demand gold from you.

3077. If you are on the gold basis it means that your prices are on the gold basis?—You mean a gold exchange standard?—That is what I wanted to know. I wanted to ask you some questions too. It depends in considering the whole question of going on an absolute gold basis whether you are contemplating recommending going to an absolute gold basis, or whether you are contemplating going on the gold exchange standard. I see far less difficulty in going on to the gold exchange standard than on to a gold basis.

3079. On the gold exchange standard you will keep the gold yourself. For instance, Holland is practically on the gold standard now. The parity of the dollar with the guilder is 2.48, and the expenses of sending gold in either direction is about one-half per cent. So the import point of gold will be 2.48 minus one-half per cent., and the export point will be 2.48 plus one-half per cent. And we are now on the level of about 2.471, which is very near the import point of gold. And now, for the moment we don’t want to get gold, for, if we received gold, then we should have to send it back to America. That would, of course, mean a new expense for shifting the gold?—Yes.

3080. It is preferable to buy exchange in the open market at the present dollar rate of 2.471. By doing so we are able to control the market without the movement of gold in either direction. We have now a cover of 50 per cent. of our liabilities in gold and in addition about 25 per cent. in gold values?—Gold values—that means dollars, I suppose?

3081. Yes, mainly. And so we are in a position that we can maintain the gold basis. We hope to do that. We are not promising to do that, but practically we are doing it. So we are supporting the market. We are not promising to pay any one who wants gold from us in hard cash. We have a gold exchange basis, but with the real gold in our vaults. Of course, will, in the long run, adjust themselves to this situation; prices must come on to the gold basis?—You don’t promise to pay gold?
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3082. I understand from what you have said that you would be willing to maintain a rate of the South African pound of 4.70 dollars?—Yes.

3083. But you would have difficulties in maintaining 4.86?—I would not say that. May I amend that? I did not exactly mean that. When I said "maintaining at 4.86" I meant with a promise to pay out gold on demand. Logically, of course, you could keep it at 4.86 just as well as you could keep it at 4.70. My difficulty was the promise to pay out gold.

3084. From the moment you are paying out in gold then, of course, you can no more control what is to be done with the gold. So the gold is going to East Africa, to Portuguese Territory, I suppose at a premium, because you find there people who want to have the gold?—Yes.

3085. (Professor Kemmerer.) In the Philippines we had quite a little experience with the gold exchange standard. The argument advanced there was that the country was too poor to have gold coins in circulation for hand-to-hand purposes, and that, therefore, it would be better to try to maintain the gold standard with less expensive coins. As near as I can make out in any country, whether you are on the gold exchange standard or on the strict gold standard, the total amount of money needed in circulation is practically the same; that is, you must have a sufficient amount of money to maintain prices in equilibrium with world prices on the gold standard level. If exchange turns against you under the gold standard, you take the gold out of your reserves and you ship it, and that creates a credit on the other side, and contracts your currency. If exchange turns against you under the gold exchange standard, you don't take the gold out of circulation; you take your silver or paper out of circulation, tie it up in your vaults and give drafts payable in gold on the other side, which reduces your balances proportionately. In either case you reduce your currency circulation by the same amount. In either case you have to draw to the same extent upon your reserves. The fundamental difference from the standpoint of maintaining the parity in the two cases is that under the strict gold standard people can take gold out and hoard it; and with the gold exchange standard, you prevent the public from getting gold for hoarding, because you only redeem in drafts. As I see it, the danger in this country of people wanting to take large quantities of gold for hoards is not very serious. This country is exporting forty odd million pounds of gold a year. It is at the source of supply. It is receiving gold all the time, and the danger of a run on your reserves, of a depletion of your reserves of a dangerous character through demands for hoarding, would seem to be very small. As far as Portugal is concerned, after all, that is a comparatively small and unimportant country, and the amount that they could drain off in a year from you, I should think, would be very small when you consider the gold resources available to this country.

3086. (Dr. Vissering.) You assume that the leakage would be four millions a year?—No, I don't think it is as much as that. I should think one and a half millions.

3087. (Mr. Pearssall.) The estimate of what the Portuguese natives take away, and what is paid in pass fees, etc., amounts, according to very good estimates, to a maximum of about £800,000. The Portuguese natives don't save up anything like the amount of wages that the Basutos or the Transkeian natives do.

3088. (Mr. Jorissen.) Isn't that because to-day the Union paper is taken from them at the Customs barrier, and they are handed Portuguese notes? If you look at your imports of gold before the war, I think you will find that the banks had to import something between two and three millions a year. There was no mint here, so they lost, I think you will find, something between two and three millions a year. There is a good deal of hoarding among the natives; you know that. I think it is very much over £300,000. (Mr. Pearssall.) That is purely Portuguese territory.
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(Mr. Jorissen.) Then you get a drain to Rhodesia. The same thing applies there with the natives.

3089. (Mr. Clegg.) Is that with Reserve Bank notes? (Mr. Pearsall.) That was the estimate of the amount it cost, allowing for the charges for the different kinds of fees and for the amounts that had to be sent in cases of estates or compensation.

3090. (Mr. Clegg.) Do you know what they actually carry over the border when they go back home? (Mr. Pearsall.) The estimate was about £12 a head.

3091. (Mr. Clegg.) How many heads? (Mr. Pearsall.) I would have to look up the figures.

3092. (Dr. Vissering.) So, for the future, you are more in favour of a system of gold exchange than of the real gold standard?—Well, that seems to me a safeguard. I don't agree with Professor Kemmerer when he says it doesn't matter about a leakage. It seems to me, although it is perfectly true, you would have to reduce your imports if you didn't have enough to pay for them.

3093. (Professor Kemmerer.) If you import goods you must pay for them, unless there is fraud somewhere, and you will pay for them presumably in the thing with which you can pay to the best advantage, at the current market prices?—Yes.

3094. (Mr. Clegg.) If the market price of mealies is such that you can get a foreign credit to pay for certain of your imports by exporting mealies at a better advantage than by exporting gold, it is mealies that go; if it is fruit, it is fruit that goes. But in any case you only send out your home commodity when you receive a foreign commodity in return. When you are going to import commodities, your market prices in this country, as compared with prices abroad, determine what articles you are going to send out, and as soon as you send out too much of any article, relative to your home demand, the price of that article goes up here, and the exportation is checked, and some other article tends to go out; or your imports will be reduced?—Surely, you would deprive yourself of a certain amount of purchasing power if you lost a certain amount of gold.

3095. No more than if you lost a certain amount of mealies. You have swapped them for another kind of purchasing power. You have given mealies and taken in shoes, or you have given gold and taken in clothing. You are just changing the form of the purchasing power, because goods are purchasing power at the market price?—Well, I can't get over the fact that, supposing you have a leakage of gold in this country, and the banks have to buy gold from the mines to replenish their reserves, they have so much less in London to pay for imports. You can't have your cake and eat it too?—But you can pay a native, for instance, with a Reserve Bank note. There is not the same attraction in the Reserve Bank note that there is in the sovereign.

3096. If they have used their gold in order to pay for goods imported from Portuguese East Africa or Rhodesia, of course they have less than they can use for buying in London. You can't have your cake and eat it too?—But you can pay a native, for instance, with a Reserve Bank note. There is not the same attraction in the Reserve Bank note that there is in the sovereign.

3097. Fundamentally, I don't think there is any difference except to this extent, that if you can carry on your currency system as safely and as effectively by, we'll say, the circulation of 5 million Reserve Bank notes as with 5 million in sovereigns, and if against your Reserve Bank notes you only need to keep a 40 per cent. reserve, whereas if sovereigns were out you would have out the full 5 million gold, then you would have made your exchange machinery cheaper by the amount represented by an annual investment of capital of £3,000,000. Then you have just as much money in circulation, just as suitable a money for all practical purposes, and you only need 2 million sovereigns really to back it up, where formerly you needed 5 million sovereigns in circulation. If that is true, you export the 3 million sovereigns that you otherwise would not have been able to export and you get goods in return for them that you otherwise would not have had?—If, instead of having 5 million Reserve Bank notes in circulation, secured by a deposit of 40 per cent. in gold, you would have 3 million sovereigns, the value of the purchasing power of the
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3 million sovereigns would equal the purchasing power of the 5 million bank-notes—is that your proposition?

3098. In either case you have practically the same purchasing power in money. Let me repeat it, and see if I can make it a little clearer. Let us suppose, to take an hypothetical case, that the total monetary circulation of this country were 10 million sovereigns, and that all of the business of the country were done by these sovereigns circulating from hand to hand. Then the annual expense to this country for maintaining its currency system would be, if you call the current rate of interest on any investment here 6 per cent., the interest on that 10 million sovereigns, or £600,000 interest, plus the abrasion, the wear and tear of the sovereigns. That is what it would cost the country a year to maintain its currency system. Let us suppose that this country introduces a central bank, and that this central bank establishes a 40 per cent. gold reserve, and that all the sovereigns are withdrawn from circulation practically, because the people accept the paper as long as they know it is convertible. You have now £10,000,000 of Reserve Bank notes in circulation; no sovereigns in hand-to-hand circulation, but 4 million sovereigns in your bank as reserve, and that is sufficient to maintain the parity and meet the seasonal movements and so on. Then by that change, you have brought about an economy in the capital expenditure for your mechanism of exchange by the amount of £6,000,000. You are needing 6 million golden sovereigns less in circulation than you needed before, and you have, according to hypothesis, just as good a currency system. You have your overhead expenses for maintaining the bank, and all that, but you have not any abrasion to speak of with your sovereigns. You don't need them any more. And you do as any one does: you sell them in the best market. They go abroad just as an increase in the gold production here would go abroad. When they go abroad, you receive £6,000,000 worth of goods that you otherwise would not have been able to have, so you are saving, then, by that change, roughly speaking, £300,000 a year. That is 6 per cent. on your 6 millions. And you are just as well off as before, provided your reserve is adequate to maintain your currency and provided the public are as well satisfied with the character of the money. That is my point.

3099. (Dr. Vissering.) If you want to follow the gold exchange system, then you must also have the opportunity to buy bills on foreign centres?—Yes.

3100. Would it be possible in this country?—It would be possible to buy bills on London, of course. I suppose you could buy some bills on Germany and France.

3101. In gold marks at the present time?—Yes.

3102. And in francs?—Yes.

3103. They are rather speculative?—You asked me if it is possible to do it: I should think you could. But I should think that, practically speaking, all the bills representing exports to Germany and France are drawn in sterling on London.

3104. (Professor Kemmerer.) Wouldn't it be very difficult to maintain the gold exchange standard at gold parity in this country before England returns to gold?—I think there would be difficulties, but are you differentiating between the pure gold standard and the gold exchange standard?

3105. The point I am trying to make is, that the gold exchange standard as it has been operated heretofore in all countries that I know of has been merely a form of the gold standard. The gold exchange standard, if it were like the Indian gold exchange standard, or like that of the Philippines or of Nicaragua, would mean that when exchange went to the gold export point, the central bank, or the Government, instead of giving gold for export, would give a draft payable in gold on the principal foreign money market of that country, and charge as a premium on the draft what it otherwise would have cost to ship gold?—Yes, that is what I understand.
When the draft is sold they withdrew the money from circulation, so that the currency is contracted just as effectively as if that much gold had been withdrawn from circulation, or from the reserves, and exported out of the country?—What I mean by the gold exchange standard is a method by which the gold reserves are used for export only, i.e. that no one can demand gold for internal purposes.

I don't think that is usually called the gold exchange standard. Probyn advocated a scheme of that kind for India at the time of the Barbour Commission in 1898. It was something along that line. A similar plan was advocated by Ricardo for England 100 years ago. There the idea was: “We don’t redeem in coin, but we redeem in bars or ingots.” Bars are not very satisfactory for hoarding purposes, but they are just as good as coin, and better, for making international payments?—Yes.

It would seem to an outsider that, of all countries in the world, South Africa would be one of the last that would want to adopt the gold exchange standard, because of fear of losing its gold. This is a country whose chief product is gold, a country which taps gold at its source as no other country can, and a country which would naturally have a strong motive to do everything in its power to make a favourable market for gold and to encourage the circulation of gold?—My idea was to have the gold exchange standard with the proviso that gold should be available only in the form of bars of a certain definite weight.

Available for the public?—For anybody who wants to export gold; available to any exporter.

In the Bank Bill that I assisted in drafting for Germany in connexion with the Dawes Committee Report, and in the banking plan that we provided in Colombia, and also in the gold exchange standard plan as we had it in the Philippines, there were provisions something to this effect. I will take Colombia as a specific example. There the central bank was under obligation to redeem its notes on demand, but it had the option of redeeming in gold coin at parity, in gold bars according to their weight and fineness in relation to the gold coin, or in gold drafts on New York at a premium not in excess of the premium that would be represented by the gold export point, so that, if the situation developed that there was a great run on the Bank for coin for hoarding, the Bank might say: “We don’t want to encourage hoarding; that is not a proper use of money. We will pay in bars, or we’ll pay you in draft.” The only legitimate use for gold in a country like that which is not met by a note, that is maintained at parity with gold, is for making foreign payments; and a New York draft which gives the right to draw gold in New York, or a London draft which gives the right to draw gold in London, is just as good for making payments to those countries as is the giving over of the gold in the country to a person who is going to export that money to New York or London, provided that the price charged for the draft is no more than the amount which would be involved in exporting the gold.

When Colombia went to the gold standard this last year, she had been on a paper-money basis for some time, and many people said that the minute she went back to gold, there would be a great drain of gold, and particularly that there would be a period of business depression or hardship. She was suddenly confronted with a financial panic, the worst she had ever had. One of the largest banks there failed. There were runs on the other banks. The extra police were called out, crowds were gathering in the streets, and it looked like a very serious time. The Government, meanwhile, had passed the law that our Commission had recommended, providing for the establishment of a reserve bank, and this law was to go into effect in about six months. We were confronted with this situation suddenly, and our Commission recommended that instead of waiting six months, this central bank should be established in four days. The Government declared 24 days’ special legal holidays, got funds in New York transferred to the proper places by cable, got gold certificates that had been used in the
gold mining regions for payments for gold, a lot of unissued gold certificates, stamped with a rubber stamp, "Provisional note of the Republic," brought them to Bogota by hydroplanes and special trains, and in four days' time we established the Bank of the Republic, organized the board of directors, got the statutes and by-laws drawn up and approved, made the transfers, and got the subscriptions of the banks. The bank opened for business at the end of that time, and offered to pay gold or gold exchange on demand the day it opened. The panic stopped overnight; the runs on the banks stopped. The bank opened Monday morning with nearly 2 million pesos of bank-notes in circulation, and the bank said: "If you want gold, here it is." There were about 10 million Government paper notes of one kind in circulation, and there were about 10 millions of paper notes of another kind, most of which were not backed by gold. The bank said: "We'll accept other notes than our own bank-notes for the time being at parity. We will not, however, commit ourselves to do that indefinitely." What happened? The very first day, after the great panic, the bank received more gold over its counters than it had to payout. Colombia has been on a gold basis ever since, and American gold exchange has been at a discount a considerable part of the time. As soon as the public found they could get the gold, they didn't want much of it?

3111. The bulk of its foreign trade now, I believe, is with the United States. Before the war it did a very large business with Germany in coffee. A good deal of their coffee now goes to New York and to San Francisco, and their bananas go largely to the United States.

3112. (Dr. Vissering.) Can you buy and sell T.T. on London and other countries in the open market here?—Not on the open market. There is a certain amount of business done between the large importers and the large exporters.

3113. (Professor Kemmerer.) There is nothing to prevent the Reserve Bank from doing that, is there?—You mean statutory prevention? No.

3114. (Dr. Vissering.) If you are buying T.T., then, of course, you can avoid the risk of the exchange. At the same time you can cover yourself with a reverse operation?—Oh, yes, but we are prevented by the Reserve Bank Act from holding any large portion of our legal reserve in London.

3115. What proportion can you hold?—One-quarter.

3116. That is, you may keep 10 per cent. in London. Must that be earmarked gold?—Yes.

3117. (Professor Kemmerer.) You ordinarily would not expect to keep your reserve against notes and deposits down to this normal, legal minimum, would you?—Oh, no.

3118. You are considerably above that minimum now?—The present reserve is 70 per cent.

3119. 40 per cent. would be looked upon usually as rather a danger point, a minimum beyond which if you went, it would be considered a sign of danger?—Yes.

3120. You could keep any amounts you want, but so far as the law is concerned, not above that 10 per cent., i.e. one-quarter of 40 per cent., in England?—Yes, but owing to the farness of bills a much larger proportion of our notes than is necessary is held in gold at present.

3121. That is probably temporary, is it not?—I don't know. The bill system hardly grows here at all.

3122. In the memorandum you submitted to this Commission a short time ago, you said: "There are certain Cape stocks of which the amounts outstanding total about 34 millions, which are registrable alternatively in Capetown or London. At the present time there are about 25 millions on the London register, and about 9 millions on the Capetown register. The effect of a large premium on the South African pound would be a corresponding fall in the price of the stocks until the arbitrage advantage disappeared." I wish you would develop that point a little more,
and explain just exactly what you mean by this double registry. By stock, do you mean shares?—What we call registered stock. We make a difference in England between stocks and shares. Stock is generally transferable in anything up to within a penny. The practice of companies differs. Some will not allow you to transfer less than multiples of a pound; others allow you to transfer in multiples of pence.

3123. If I understand that correctly, stock is really a certificate of proprietorship in a corporation upon which the holder receives dividends if dividends are earned. It is essentially like shares except for the form in which the title is expressed?—That is all, it is only a technical difference.

3124. When you speak of registering it in London or Capetown, you mean that if it is registered in London it is registered as pounds sterling; if it is registered in Capetown, it is registered as pounds South African?—Well, simply pounds.

3125. Does that mean the South African pound in the one case and sterling in the other?—Yes.

3126. Then one would think, if the South African pound was worth more than sterling by 3½ per cent. or so, as it is now, and if the dividend rate was the same on the stock that was held in London as the stock that was held here, and if it was here paid in South African pounds and there paid in sterling, that the people would very quickly transfer their registry?—Yes, I don't know why they don't. I suppose they have done so to a certain extent.

3127. (Professor Kemmerer.) If it were transferred here, and the people lived in London, when the dividends were paid here they would naturally transfer them to London, and would have to stand any expenses incidental to the transfer?—Yes.

3128. The earnings of the corporation would tend to be less if they were expressed in South African pounds?—This is a Government stock, Cape Government stock. It is a debt, you see; it is a loan raised by the Cape of Good Hope before it became a Province of the Union.

3129. It is not a certificate of ownership; it is a certificate of indebtedness?—Yes.

3130. (Professor Kemmerer.) I was under a wrong impression before. It is not a certificate of ownership; it is a certificate of indebtedness?—That is so. I meant ownership of stock.

3131. It is surprising that up to the present time, with the difference between the South African pound and sterling that has existed for some time, that there have not been pretty heavy transfers of registry?—There have been a certain number.

3132. (Mr. Middleton.) The amount which can be bought is limited, because the stock is held by a large number of people in England as an investment. It is very difficult to get the stock unless you are prepared to bid up the price.

3133. (Professor Kemmerer.) When was the stock floated?—There are two or three stocks. They were floated before Union. I don't know exactly what date.

3134. Then these stocks were floated on a gold basis?—Yes.

3135. So, if returning to the gold standard should mean paying them on a gold basis, it would be no more than paying them on the basis in which originally they were bought, which, presumably, the original buyers anticipated?—Yes, I don't make much of that point. I am taking that as one of the objections that has been raised from time to time. I don't think there is very much in it.

3136. The same applies to the next point you made here. You say: "The capital of the gold mining industry in South Africa, taking the productive mines into account, is about £40 million, and the shares are registrable alternately in London or South Africa. It may be assumed that 66 per cent. of these shares are at present held in Europe. A similar depression to that mentioned above would take place in the price of gold shares in this country." Here is a case of actual certificates of ownership?—Yes.
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3137. If they are registrable both in London and here, there registrable in sterling and here in South African pounds, wouldn't it be very natural also, if the dividend paid were the same in both cases, that there should have been a transfer to the South African registry long before this?—Yes, I agree. I am surprised that it has not taken place. My point there is, supposing you have a really big difference, you would have that movement taking place.

3138. That would not affect the earnings of the companies appreciably. If the capital of these companies is worth £40,000,000 sterling now, and if there is a 3 per cent. difference between the pound sterling and the pound South African, then the value of this capital in South African pounds would be 97 per cent. If they paid dividends they would be paying in a more valuable pound, and, presumably, if the profits were the same, they would be paying less pounds but the same value, and anybody who took his dividends on the other side, if the amount were the same, would be losing and, I should think, would very quickly transfer.

3139. (Dr. Vissering.) If we are considering the South African pound and the English pound as the same thing, then what is to happen if, for instance, South Africa should go back to the gold standard, and, finally, the English pound should be devalued at 10 per cent. less: then you would have a very difficult position. How could this problem be solved?—I suppose you would have the transfer of shares from London to South Africa. People would prefer to take their dividends in the appreciated South African pound. (Professor Kemmerer.) The dividend would have to be less. That would not increase the sum total of the profits.

3140. (Dr. Vissering.) Holland has had the same difficulty with her colonies. They have borrowed in guilders. Then the question is, what is the guilder? Is it the Indian guilder or the Dutch guilder? For instance, the coupons at present are payable in Holland and India at the same rate; in India in Indian guilders and in Holland in Dutch guilders. In the long run it would be impossible to pay these Indian debentures in terms of the Dutch guilder?—Yes. What are you going to do about it.

3141. We are trying to get the Indian guilder up to par. We are co-operating now. That will be our solution. But should you have to devaluate one of the currencies you would be placed in a very awkward position?—Yes. I suppose most of these gold mining shares were raised in Great Britain in the pound sterling.

3142. (Professor Kemmerer.) You don't consider this a very serious thing?—No.

3143. In a memorandum we received to-day from a well-known South African banker, a return to the gold standard 1st July next is recommended, and he suggests various methods of facilitating that return. Among them is this: That the Reserve Bank be authorized to grant such facilities to the gold mines as may induce the latter to realize their production through the medium of the Reserve Bank, thus giving the latter control over the movements of the South African gold production?—That is not needed. We already have power to buy gold.

3144. And you would buy gold whenever it was to your advantage to do so, or whenever it was to the advantage of the South African public in the interests of maintaining the gold parity, if a return should be made to the gold basis?—Yes. I may mention that recently, when the pound went up, when we got within practically parity here, I asked one or two of the gold mining people in Johannesburg to come and have a conference with the Reserve Bank as to what modus operandi should be adopted when they wanted to sell their gold, because it would be perfectly ridiculous for them always to send it into the mint as a matter of course, and for the mint to go to all the trouble of minting sovereigns which were not wanted. We haven't yet had that conference, but, certainly, it is the intention of the Reserve Bank at all times to be prepared to take the gold.
3145. Then there would be two markets here for gold: one, the mint, which always would be ready to coin, and the other the Reserve Bank, which would presumably buy it in bars at a fixed rate, just as the Bank of England buys bars at 1s. We haven't actually fixed the rate, but it would be something of that kind, to enable them to get cash at once instead of waiting for the sovereigns to be minted.

3146. That would avoid the necessity of coining a large amount of sovereigns which this country couldn't perhaps absorb, and which England wouldn't want to absorb, and which would be likely, perhaps, to depreciate the sovereign slightly in terms of bar gold if you threw too many on the market?—Yes.

3147. Another point I would like to raise here before we come to the subject of the Reserve Bank and its functioning, is this question of forward exchange. Dr. Vissering and I have both been surprised to find that in this country the banks are doing nothing, or practically nothing, in the line of making forward contracts in exchange.—Yes.

3148. If this country should go to a gold basis, and if sterling should not return to a gold basis, the presumption would be that you would have more fluctuations in sterling than you have had recently?—Do you mean more fluctuations in the sterling-dollar rate than we have had recently?

3149. I mean more fluctuations in the South African-sterling rate?—Yes.

3150. The presumption would be, I should think, that exporters in this country, like exporters in other countries that are dealing with exchanges that are more or less unstable, would want to shift the risk of a fluctuating exchange to somebody whose business it was to handle such risks?—Yes.

3151. And therefore they would presumably want to make forward contracts with the banks for the sale of their bills; and that, in the same manner, importers would like to make forward contracts for the purchase of their drafts, and that it would be profitable to the country as a whole, and profitable to the banks, who might hedge, to develop that business. If it could be done, a good many of the evils and uncertainties of a fluctuating exchange would be eliminated, as they are in other countries?—Yes.

3152. This memorandum, to which I have just referred, in commenting on the subject of forward exchange contains this paragraph: "In the matter of forward exchanges the Reserve Bank might assist in lessening the risk of forward exchange contracts by covering the commercial banks, if they so desire, and, as far as convenient to the Reserve Bank, over any difficulty between their forward sales and purchases at current rates. The handling of Government funds, in their capacity of bankers to the Union Government, would give the Reserve Bank control over the amount of such funds overseas and enable them to regulate remittances one way or another, similar to the Indian Government's Council transfers." In discussing forward exchange with some bankers here, the point has been made that, there being only two banks, the banks are under obligation to buy all the good bills that are offered or to sell all the drafts that are demanded, and that, although in the long run the bills and the drafts must balance, in the short run, there may be considerable periods when they don't; and that therefore it would be difficult for the banks to operate safely in forward exchange with this obligation, because they could not cover adequately. Now here is a suggestion that the Reserve Bank held them to cover, and that, so far as necessary, you use the Government funds or get the co-operation of the Government in doing so. We would like your judgment on that?—Well, I have always been astonished, as you were, that the commercial banks would not do any forward exchange, and I have made some endeavours to induce them to do so, but without success. I realize myself, that South Africa certainly ought to have some means of buying and selling forward exchange, and that, if South Africa is on a gold basis while sterling is not, the need for that
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forward exchange business will become still more imperative. And I quite agree with that suggestion, that if the other banks can't do it, that the Reserve Bank in course of time step in and do it.

3153. The Government has pretty substantial remittances to make from time to time, and pretty substantial balances abroad from time to time; it would help you in that regard if they were made available, would it not?—I think it has to make payments in London of about 12 millions a year.

3154. (Dr. Vissering.) Remitting from here to London?—Yes.

3155. On the debt service?—Yes, and for other things.

3156. (Mr. Middleton.) Stores, pension payments, etc.?—Still, the service of the debt is the main thing.

3157. When the Government is borrowing in London, the remittances required are less?—Yes, that is one of the features of recent years. The Government has borrowed money in London, so their needs for remittances have been less.

3158. (Professor Kemmerer.) In England the Bank of England is practically the sole depository of Government funds, is it not?—Yes.

3159. That is also true in France?—I should think it is still more so than in England. When I say that I refer to the fact that the Bank of England has very few branches. It has eight branches outside London; two in London. The Bank of England in the old days used to collect customs revenue, excise, all over the country. They used to send a clerk and do it by going about from place to place, actually physically collecting it. In the course of time that became unworkable, and they had to make arrangements with the other banks to act as their agents. So actually the other banks collect most of the Government revenue in England, and they have an arrangement with the Bank of England by which the Bank of England accepts as cash a four-day's or seven-day's draft.

3160. They do that only in certain places where the Bank of England has branches?—Where the Bank of England has branches it, of course, does the work of collection itself.

3161. And they, the other banks, do it as agents of the Bank of England?—Yes.

3162. Now in this country you are not the sole depository of Government funds?—We are not.

(Mr. Middleton.) They are not a depository at all.

3163. (Professor Kemmerer.) The law authorizes you to be a depository?—Yes, the law authorizes us.

3164. Don't you think the Reserve Bank of the country, which is a quasi-public institution, and which has the responsibilities that such a Reserve Bank would naturally have to the public, would be the natural depository of Government funds?—I think it would, certainly.

3165. Don't you think the time is coming when it should become practically the sole depository of Government funds?—I think you have to look at the whole position of the Reserve Bank here as a matter of evolution. The Reserve Bank started in an extremely difficult time. It would have been very difficult indeed . . . . However, I don't want to go into old history.

3166. When the Reserve Bank was established, was it contemplated that it should become the sole depository of Government funds?—I couldn't answer that it should be the sole depository. I was not here when the idea of the bank was first started. There is nothing in the Act to say that it should be the sole depository, but I presume it was intended that the Reserve Bank should be the main Government banker.

3167. Do you look forward to the time when it will become the principal depository of the Government funds?—Yes, I look forward to that time. But I am not sure that the time is quite at hand that it should be the principal depository.

3168. If it becomes to a large extent the depository of Government funds, the possession of those funds would be an advantage to it, would it not, in enabling it to assist, in the manner we have just suggested, the carrying on of forward exchange operations,
3169. (Mr. Middleton.) Yes, that would have to be stopped. The Government would have to get remuneration from the increased profits of the bank?—That is one point, you see: the Reserve Bank cannot give any interest on Government funds.

3170. (Professor Kemmerer.) It is an exceptional thing for a central bank to give interest on Government deposits. As I understand it, when the profits of the Reserve Bank exceed 10 per cent., the Government participates in those profits and participates liberally above that point?—They take the whole lot above 10 per cent.

(Mr. Middleton.) And certain profits before that rate is reached.

3171. (Professor Kemmerer.) So that the Government might very well in the long run gain as much by its share in the increased profits as it would lose by not getting interest on its balances?—Yes.

3172. What do you consider to be the proper function of the Reserve Bank in South Africa?—Well, I think the Reserve Bank in South Africa should do what every other central bank does; that is, have sufficient control over the available funds of the country to be able to make its bank rate effective. That is the chief internal duty.

3173. To make its bank rate effective: why does it wish to make its bank rate effective?—In order to regulate the foreign exchanges.

3174. And also to regulate the discount rate?—Its bank rate is the discount rate, as I see it.

3175. A distinction is made between an exchange rate and a discount rate for internal operations, although an exchange rate usually involves a discount rate?—When I am talking about the bank rate I mean the discount rate.

3176. Do you think the bank has any function to perform in maintaining the gold standard, when it is once adopted, or in maintaining reasonably stable exchange rates until the gold standard is adopted? Isn’t it one of the functions of any central bank to conserve the money market in such a way as to maintain the standard of the currency effectively; as provided by law?—That is what I mean by saying sufficient control to make its bank rate effective. What I call an effective bank rate is to make the rate such that it controls the exchange rate.

3177. I wonder if there are not two different things here. Let us forget the exchange rate for a moment. Suppose you just deal with the local situation. Suppose you had a situation in this country in which the Reserve Bank authorities thought the other banks were expanding unduly, that there were danger signs ahead, and that the other banks were “riding for a fall.” If the Reserve Bank thought that, and it should have talked the matter over with the other banks, and the other banks should have disagreed with the Reserve Bank, then wouldn’t it be the duty of the Reserve Bank to step in and do what it could to prevent what it considered to be dangerous over-expansion?—Yes. I may not have expressed myself very well, but that should really have been included in my first definition: that the Reserve Bank should have sufficient control over the available credit of the country that if it thought the other banks were going too far, it should raise its rate of discount; that is to say, the market, as a whole, should be to a certain extent dependent upon the Reserve Bank.

3178. If the Reserve Bank raises its rate under such circumstances and the other banks, of which, as I understand, there are only two important ones, should practically say: ‘We don’t believe there is any danger. We have ample funds. We don’t need to
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rediscout. Go ahead, raise your rate. We are going on, as we believe, wisely." And if the other banks then should refuse to conform to this change in rates, how are you going to make your rate effective?—Well, I think in South Africa it would be very difficult, because there is no money market. In England, for instance, when the Bank of England wants to make its rate effective, it borrows in the market and mops up what it considers surplus supplies of credit. In South Africa it would be extremely difficult to do that unless the commercial banks were actually dependent upon the Reserve Bank for supplying a considerable portion of the funds which they were using.

3179. They are not now dependent upon the Reserve Bank?—No, but in times of any considerable increase in business in South Africa they probably would have to depend on the Reserve Bank.

3180. Even taking the conditions as they are, is there anything you could do to make your rate effective?—We could sell Government securities to the extent that we hold them, if we could find a market for them.

3181. If you would reduce the rate enough, presumably you would find a market?—Well, I don't know. I think sometimes we should find it very difficult to sell them.

3182. Is there any other type of paper that you could carry and sell under such circumstances?—No.

3183. In America a Federal Reserve Bank can sell bank acceptances at such a time, which it always carries. But you would not have these bank acceptances.

3184. (Mr. Middleton.) Treasury bills?—Yes, I have already said Government securities.

3185. (Professor Kemmerer.) Would it be an advantage to the Reserve Bank in this connexion, i.e. in making its rates effective, if there existed in this country moderate quantities of short-time Treasury bills maturing at frequent intervals?—Yes, it would.

3186. Isn't there another way in which the bank could make its rate effective from time to time, that is, in dealing directly with the public in open market operations? If the bank wished to make its rate effective, it would reduce the discount rate at which it was ready to advance funds to the public? That in itself would tend to draw the market into the bank, would it not?—Recent history afforded a comment upon that in the fact that we had reduced our rate in order to stimulate the use of bills, and we have had during two months, I think, a couple of bills.

3187. (Dr. Vissering.) Is the public acquainted with that rate?—Well, the papers gave the bare detail, but we have since sent the round to all the chambers of commerce.

3188. Is that sufficient?—Of course, that remains to be seen. The result of that has been that we have had an inquiry from Durban about it, to which we have replied; but we have got nothing else yet.

3189. In Holland we publish our rates at least once a week. They are also published in the official State Journal. So everybody sees every week what our rates are?—Yes, well, I wrote to the Cape Times the other day. They publish a list of rates and so on, and don't give the Reserve Bank rate. They publish the Bank of England rate, but not ours.

3190. (Professor Kemmerer.) In America the Reserve Bank rates are published right along. Do you have any considerable number of non-bank customers dealing directly with you, as has the Bank of England?—No, we haven't got any.

3191. If you would go into the open market and encourage certain of the best classes of people to deal with you (those who in their business use largely the best grade of paper), the type of customer that the Bank of England has in England, wouldn't that have two advantages for you? In the first place it would give you a means of paying your expenses and perhaps of making a moderate income during the times when 'the market was not in the bank,' and in the second place would give you facilities for making your bank rate effective in times when the
banks were disinclined to follow your lead?—That is what we are already doing, by putting down our discount rate. We are endeavouring to start the beginnings of a business on those lines.

3192. That has been only a recent development?—Yes, there were reasons why we could not do it before. It was very difficult for us to introduce anything of a competitive nature.

3193. You think that the time when it is difficult for you to come out and operate to a considerable extent in the open market has largely passed and that you may be able to do so now?—I think the conditions are much more favourable now than they have been.

3194. If you cannot operate in the open market, or if you don’t operate in the open market, to a considerable extent, I don’t just see how, in a country where there are only two banks doing any considerable amount of business, and one of these banks is so large that it is not appreciably dependent upon you, you are going to pay your expenses or make your rates effective?—No, that is perfectly true. But I think you must remember we have been going through a period of tremendous depression. I think if we had a lift up from that we might get considerable calls for rediscounts from all the banks.

3195. The other banks have very large balances abroad yet, have they not?—Yes.

3196. The statement has been made before this Commission a number of times that the banks were keeping large balances abroad. When we asked why, we were told that they were keeping them abroad because there were not opportunities for investing them here safely at rates which would be at all reasonable. the emphasis being placed upon the matter of safety?—I don’t think that is true. I don’t think the banks have deliberately said, ‘Let us keep our money abroad.” The fact has been that there has been a constant repayment of loans in this country during the last three years. There has been very little spare purchasing power. Therefore the people have been living from hand to mouth as regards imports.

3197. That happens quite generally, I believe, does it not, during a period of currency deflation? People don’t want to make advances, expand their business, extend their operations, at a time when the prospects are that prices will fall?—That is a natural course.

3198. And they don’t want to borrow cheap money and be compelled to pay back dear money. And so the tendency is to play safely until the readjustment is made, and to pile their money up in the banks, because money appreciates in value when you hold it, and goods go down in price when you spend it.

3199. (Dr. Vissering.) When the Reserve Bank was created, was there at any moment the idea that it should act only as a bankers’ bank?—I think Mr. Jorissen could answer that better than I could, because he was here when the whole discussion about the Reserve Bank was taking place. So far as I have heard, the idea that it should act only as a banker’s bank was very prominent at that time.

3200. It seems strange to make a banker’s bank in a country where you have only two banks of any considerable size?—There were five banks at the time.

3201. (Mr. Middleton.) There were six banks at the time, but only two large banks?—(Mr. Jorissen.) The A.B.C. was not a small bank. It played a considerable rôle.

3202. (Dr. Vissering.) Was it the intention from the beginning that it should only be a bankers’ bank or was it intended that it should also deal with the public?—Undoubtedly, to a certain extent; but the underlying idea, so far as the bankers understood it, was that it should be a bankers’ bank, partly on account of the reserves which had to be put up and the amount of capital which had originally to be furnished by the banks. In the first draft of the Act the banks had to take £500,000 out of a total capital of £1,000,000. Then it was reduced slightly.
Do they still hold a large proportion of the stock of the bank?—Yes.

They are not required to any more?—No, but they still hold the greater part of the amounts they originally subscribed for.

At their own option?—At their own option.

On that score, they haven’t any ground for complaint?—No, they are not now obliged to hold reserve bank stock.

Taking the situation as it is now, if the commercial banks don’t want to furnish money to the Reserve Bank in the form of capital they need not?—(Mr. Clegg.) Not in the form of capital, but they have to deposit with the Reserve Bank 10 per cent. of their demand liabilities.

That is no loss to them because they had to hold more than that in actual cash before the reserve system?—They were not obliged to. It was a matter of prudence.

Before the war they kept round about 20 per cent. in cash?—(Mr. Jorissen.) During the war some of them went down to under 3 per cent.

But in normal times it would seem that they had been keeping in their vaults cash representing a larger percentage of their total liabilities to the public than they are keeping now with you plus their till money; so there is no loss there?—(Mr. Jorissen.) I don’t say there is.

Mr. Jorissen’s bank was keeping about 30 per cent.?—Oh, more. (Mr. Clegg.) Then you must remember they have also to keep till money now in Reserve Bank notes: previously they used their own notes as till money in reserve.

But the total amount of cash they must keep with you at the present time, on which they get no interest, plus the amount of till money that they keep, does not exceed in percentage to total liabilities what they kept in their vaults as actual cash before the war?—No.

So it cannot be said that by reason of the establishment of the reserve system they are losing profits by being compelled to hold more cash funds idle than they were before?—No, they cannot. But you have to consider also the psychology of it: they give to another bank a certain amount of their funds and that other bank starts to use those funds against themselves.

But that other bank is using those funds as a quasi-public institution for the purpose of maintaining the stability of the currency, of conserving the South African financial market, and of providing machinery to meet emergencies; in other words, it is acting in the interests of the general good, and in doing so is supposedly going to benefit the banks in the long run as well as the rest of the public?—That is an undoubted argument. I think that argument is undoubtedly true, but it is sometimes difficult to get people to draw the distinction.

When the Federal Reserve system was advocated in 1913, nearly all the banks—I may say, as far as they were articulate, 99 per cent. of the national banks and most of the others—opposed the federal reserve system very vigorously. And the Reserve Act contained the provision that every national bank must come into the system, and that it must subscribe an amount equal to 6 per cent. of its capital and surplus to the stock of the system, and that they must deposit a large part of their legal reserves with the reserve banks; and, subsequently, it was required that they must so deposit all their legal reserves in the Reserve Bank. The banks opposed this vigorously. They wanted to keep their deposited reserves in other commercial banks where they got interest, and they fought the proposal to the limit of their ability, but to no avail. There were threats thrown out repeatedly that the national banks would get out of the national banking system if they were compelled to come into the reserve system; and a number of the biggest bankers suggested they would probably get out of the system if the law was passed. Well, the Federal Reserve Act was passed, and very few, almost none, of them got out. And the attitude of
the public was: "Our banking system in the past has been unsatisfactory in the public interest. It has not been responsive to changing trade conditions and needs. It has broken down repeatedly in times of panic and commercial crisis. It has caused serious losses and serious hardships of all sorts. And in the interests of the general good we are going to lay down new rules for this banking game." We must have new rules in the interest of the public welfare. These are the new rules. You banks are chartered under national law. You get your powers from the national Government. If you don't like these rules, which we find, after careful consideration and hearing, are necessary in the interests of the public good, all we can say to you is, 'Get out of the system. You don't have to stay in. And if you don't like to do banking business under these new rules, why, go into stock-raising or something else.' That was the general attitude of the public. Then the war came on, and most people realized, even the banks that were opposing the system realized, how necessary the reserve system was for the country. The American reserve banks are to some extent competing with the commercial banks, and, I believe, are doing so to an increasing extent. The reserve banks must make their expenses, and they have been operating in the open market for the purpose of doing so, and for the purpose of controlling the currency situation so as to prevent inflation. You must realize it is much easier to do that where you have a large number of banks than where you have only two.

3216. Certainly. But on the other hand, this is true, isn't it: that since there are two or three commercial banks, your Reserve Bank is very limited in its ability to serve as a reserve bank for the other banks? And if it is to justify its existence, and is to pay its expenses, it must probably, to a much greater extent in South Africa than would be necessary in a country like America, come out and operate in the open market and deal directly with the public?—I am not arguing against that at all. My only contention is that with the conditions under which the Reserve Bank was started, and with the conditions that have prevailed since, it would have been practically impossible to have done that.

3217. A period of deflation is a time when you don't expect a new bank to come in and expand. But this country has apparently deflated now to gold parity, and possibly even below. And isn't it true that those conditions which you mention either have passed or are very rapidly passing?—I think the time has come. We decided at our board meeting, when we recently reduced the rate, that the time had come for the bank to begin to make its influence felt outside the other banks. But if you look at the Reserve Bank Act, you will find it extremely limited in what it may do. Really, the only thing it can do is to discount bills.

3218. It can buy and sell exchange?—I am talking about internal business.

3219. It can discount short-time paper of almost any kind; 90-day paper, either promissory notes or bills?—Yes, good bills, good trade bills.

3220. It can buy Government securities, short-time?—Very short.

3221. What more would you want it to do?—I think a central bank ought to be able to lend on Union Government stock of any currency.

3222. Can't the Reserve Bank buy Union Government stock?—Only at six months' currency. But where can you get such stock if you want it?

3223. You can buy British Treasury bills?—You can under the amended Act, to a certain extent.

3224. You can buy Treasury bills here and Union Government stock up to six months' maturity?—Yes.

3225. Can you lend on paper collateralized by Government stock of more than six months' maturity?—No. I think that is also six months' currency.
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Mr. William Henry Clegg and Mr. Hendrik Christiana Jorissen.] 3226. In most countries, I believe, it is taken for granted that a central bank, the bulk of whose liabilities are demand liabilities in the form of notes or in the form of deposits representing bankers' balances, ought to keep itself very highly liquid. Oh, I quite agree with that. But in the open market people who want advances haven't got these short-dated securities.

3227. In the United States the reserve banks can buy United States Government long-time bonds, although they don't do so to any great extent now. They do buy on a considerable scale short-term Government certificates. They can rediscount paper collateralized by Government bonds, or make direct loans on paper so collateralized?—(Mr. Jorissen.) Of any currency?

3228. As far as the security is concerned, yes, of any maturity. But that was one of the great causes of inflation during the war and immediately after. The privilege was abused, and the need for it is practically past, because we have enough short-time paper now to meet those needs?—(Mr. Clegg.) Does the Federal Reserve Bank hold any deposits except those of other banks?

3229. Only from the Government and from some foreign central banks?—There you have an active market where you can go out and buy bills and buy Government securities. It is very different here.

3230. Federal Reserve Banks can buy United States Government securities, but they generally take the attitude that it is rather undesirable to load up heavily with Government bonds of long maturities, although, as I have said, during the war there was quite a little of that?—Still, it gives it a valuable weapon if it wants to make its rate effective.

3231. You think it would be desirable here to permit the bank to buy Union Government securities with long maturities or to lend, we'll say, on 90-day paper collateralized by such securities?—We can already lend on 90-day paper, collateralized by Union certificates, but nobody has ever asked us to do it.

3232. You have in the Reserve Bank a rate that you quote for rediscounting to the other banks, and you also have a rate which you quote to the public?—Yes.

3233. Is there more than one rate in each case? Is there a rate for different kinds of paper, or do you just have only the two rates?—We have only the two rates, as we don't take anything but good paper.

3234. But you have the same rate, for example, for the banks on 90-day, 60-day, or 30-day paper?—Yes.

3235. And for the public it is the same rate for any paper that you accept?—Yes, it is at present. As things develop, we will very likely, make a discrimination between 60 and 90 days and 30 days.

3236. There has been no occasion for it yet?—No.

3237. It isn't a question of bank policy. You simply haven't worked it out yet?—Yes.

3238. Your present rate to the banks is what?—4 per cent.

3239. And your rate to the public?—5½.

3240. When a bank rediscounts with you at 4 per cent., what does it normally get from the public on the same grade paper?—I think you had better ask the banks that question. It is rather difficult for me to say.

3241. (Mr. Middleton.) 7½ per cent. was stated in Johannesburg?—(Mr. Jorissen.) The banks also agreed two years ago to a 6 per cent. rate for discount. They quote that; at least they published that at the time. When the bank rate was first fixed, we met the banks, and we agreed on 6 per cent. for fine trade paper, and 6½ per cent. for fine agricultural paper.

3242. (Professor Kemmerer.) My recollection was that we asked. I think it was Mr. Greig, about this question, and the answer was that when they rediscounted with the Reserve Bank they got a rate of 4 per cent.; and when we asked at what rate they were discounting that kind of paper for the public, 6 per cent. was suggested?—(Mr. Clegg.) We cannot tell, of course, what they are discounting those bills at. They may range from 6 to 7 per cent.
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3243. What rate of interest do the banks pay here on fixed deposits of 60 days or 90 days?—I think their three months' rate is 24 per cent., six months' rate 3 per cent., nine months' rate 34 per cent., and twelve months' rate 4 per cent.—somewhere on that range.

3244. Do the larger business men here finance themselves to a considerable extent by borrowing in London for short maturities?—No; I should not say so.

3245. You spoke some time ago of trying to do everything in your power to encourage the use of trade bills in place of these open accounts?—Yes.

3246. That matter has come up for discussion several times before this Commission, and it has been argued that one reason why retailers have not been willing to take up the trade bill was the feeling that there was no profit to them in doing so. When goods are sold on open account, they may have to pay more for it, but they don't know that they are paying more. The increase does not appear in a definite interest charge. And, if they accept a bill, they have to commit themselves to a payment at a definite time, and they don't see where they are obtaining any financial gain by doing so. If it is argued that if the wholesale merchants would say to the retailer: "Our charges for open accounts are so-and-so. If you will accept bills for 60 days or 90 days, our rates will be so-and-so," and that if they would make a clear-cut definite difference in the price, so that the retailer could see that he was making a financial gain by accepting it, that he would be disposed to do so. And then, if the banks would say to the wholesaler, "We will give you very substantially better terms if you discount trade acceptances than if you borrow on overdrafts"; and if the Reserve Bank should offer exceptionally favourable rates for trade acceptances, so that you would have this advantage clear cut all along the line, more could be accomplished than has been accomplished; and it has been argued that the Reserve Bank itself ought to show even more preferential rates than at present for that kind of paper?—Do you mean for rediscounts, or to the general public?

3247. Well, both?—We are showing it now. But, to my mind, we shall never get any progress in the matter of converting the open account into the bill system unless we have the wholehearted co-operation of the other banks.

3248. Suppose the Reserve Bank, in carrying out this propaganda to popularize bills, should make a specially favourable rate for the discount of bills directly to the public in its open market operations, couldn't it do something there and more or less force the hands of the banks?—Yes. That is the line which we are now adopting. We have quoted what is, for South Africa, a very low rate, 5½ per cent.

3249. Is that enough difference? That seems like rather a small difference when you consider the rates that are being paid here on time deposits. One-half per cent. is hardly enough to break a hard-and-fast custom?—It is 1½ per cent., below the best rate for overdrafts. The best rate for overdrafts is 6½ per cent. Our rate is 5½. You would think that, if there was any financial eagerness to get the best terms, a difference of 1½ per cent. ought to produce some result.

3250. When you discount a trade bill, are the proceeds of that bill immediately withdrawn, or is a substantial part of those proceeds left on deposit with you?—No, it is immediately withdrawn—speaking from a very limited experience.

3251. Ordinarily, one would expect a different rate on an overdraft than on a discount if, in case of the discount—as is true in so many places—a substantial part of the proceeds is kept on deposit, while the charge on the overdraft is a charge on the average daily debit?—When I say that the amount of the discount is immediately withdrawn, I am talking of the Reserve Bank. It would not be so with the other banks. A customer would naturally leave some part of it there.
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3232. The other banks ought to make a still larger rate of discrimination to allow for that fact, because a discounted bill generally bears a lower rate than an overdraft, does it not?—Yes. of course it ought to, because with an overdraft you take it just as you want it, and pay for just as much as you take. With a bill you take the whole thing.

3233. And then leave some of it there?—Yes. (Mr. Jorissen.) We have tried for days and days to impress on that on the commercial banks, that the difference between the rate of interest and the discount rate was not large enough. (Mr. Clegg.) I should like to say one thing about that whole question of discounts, that is, the rate for the collection of bills in this country is very heavy. It really tends very largely towards the exclusion of bills. That is a thing which we cannot in any way tackle while we have no branches.

3234. You have the power to tackle it?—We have the power to open branches.

3255. (Dr. Vissering.) How do you collect these bills? Have you to go to the farms and so on?—No, they are made payable at a bank. But you see we have to send our bills all over the country through the medium of the other banks. With bills which we discount for other banks, they have to do the collection free of charge, but for outside bills which we are discounting from the public, they will naturally charge us at the same rate as they charge the public: otherwise there is not only an advantage in the discount rate but there would be also an advantage in the collection rate.

3256. (Professor Kemmerer.) And you will not be able to bring that down until you have your own branches?—No.

3257. In the United States there is no charge, as I understand it, made by the Reserve Bank for collecting any of the bills of other banks, and when a reserve bank sends out bills to be collected by member banks, the member banks are required to remit without deduction for collection charges?—That is, rediscounted bills?

3258. Yes?—But what about bills which they bought in the open market?

3259. I don't know how that is?—We have the same ruling as regards rediscounted bills.

3260. I don't believe that there is any charge there, because our reserve banks do so many things for the member banks, perform so many services, rather expensive services, free of charge. And the law prevents a member bank from making any deductions when making remittances to a reserve bank. I don't believe they are permitted to make any charge when making collections on these open market operations, but I cannot have the matter, and say that. You think that a still further reduction of the rate on the part of the Reserve Bank would not help very much?—I don't say that. I don't commit myself to that at all. But what I do say is that the difference of 1½ per cent., or 1¼ per cent., rather, has not been sufficient to excite very much interest. We started by putting our bank rate at 6 per cent. We wanted at the time the other banks to leave their overdraft rate at 7 per cent, so as to have a clear margin of 1 per cent. They would not agree to that. They said: "No, we shall not be able to justify such a large difference between the overdraft rate and the discount rate to our customers."

3261. But why not?—I cannot answer you, and I have never been able to succeed in getting a good reason. Still, that was what they said: "As soon as we have a 6 per cent. rate going we shall be bombarded with demands from our best customers to have a reduction in our overdraft rate. We would rather meet that by giving them a little bit to start with."

3262. You think they would say to their customers: "If you want this better rate, take a bill"?—That was our argument—the difference of 1¼ per cent. was not operative before—in inducing the system of bills to arise. So we decided to make the difference 1½ per cent. They refused to follow us; and there we are at present. I don't say that it may not be necessary for us to go down and reach the point at which it becomes clearly profitable to
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put the change over. But, of course, you must remember that all the time we have to rely upon the other banks for collecting our bills.

3263. There has been an effort made for a number of years in the United States to encourage the use of trade bills in place of open accounts, and I regret to say that it has made very little progress, except in certain limited industries—the hardware industry and a few others—where quite a little progress has been made. But otherwise it has not made much progress, and the percentage of our total trade financing done by these trade bills to-day is exceedingly small?—Promissory notes I suppose you have?

3264. With us, the difficulty seems to be this: It has been the custom ever since the Civil War in America, when the currency was so unstable and creditors did not want to take the chance of a fluctuating currency during the period of the indebtedness of their customers, for these merchants in selling goods to give very large discounts for cash; and that encouraged the customers to pay cash. The result has been that the best concerns take all their cash discount, and they get a much better return by taking their cash discount than they would if they let the account run. Then, in order to take their cash discount, they borrowed directly from their banks on one-name promissory notes. You would naturally say that a one-name promissory note would be poorer than a two-name acceptance; and "other things equal," it would be. But other things are not equal. It is the strong concern that takes all its cash discount, whose one name is often worth more than dozens of other names. The result is that in most lines the trade acceptance is not being adopted by the best concerns—they pay cash and take their cash discount?—These promissory notes of the big firms go all over the country?

3265. Yes. When the small concern cannot take this cash discount, there is an opportunity to develop trade acceptances. But these small concerns would be second-rate concerns to a considerable extent. And many of them are reluctant to accept bills and to bind themselves to definite time payments for the same reason as they are here. They don't see the advantage of the better terms, and they are afraid of the more definite form of the obligation.

3266. (Dr. Vissering.) Eventually, will it not be necessary for you to open branches in the big towns here?—I think it will be necessary.

3267. It will become rather expensive. You will have to have your own buildings?—The difficulty with opening branches on a large scale is that for a good part of the year our men would have very little to do.

3268. (Mr. Middleton.) If you had the Government account?—I don't suppose the Government account would mean very much.

3269. It would not mean a great deal of work?—No.

3270. (Professor Kemmerer.) A branch would not need to be a very pretentious sort of affair, would it?—No.

3271. A small office with a small personnel?—It would have to keep a good stock of notes, and, therefore, have good strong-room accommodation.

3272. It would not need a very large corps of help?—No. I quite foresee that in the future we shall have to adopt that policy; though not to open a very great number of branches straight away. We will open two or three, and feel our way more or less.

3273. In Colombia, when they organized the Bank of the Republic, they found it necessary, because of the great distances and difficulties of transportation, to create branches or agencies at different parts of the country very soon: within a few months after the bank was opened; and in a few cases, at the start, instead of opening a regular branch, they employed a bank to act under instructions from them as its agent for doing certain definite things. (Dr. Vissering.) Commercial banks?
Mr. William Henry Clegg and Mr. Hendrik Christian Jorissen.

3274. (Professor Kemmerer.) Yes. That was a temporary arrangement, but it helped to tide over the time until they could afford to organize a branch.—(Mr. Jorissen.) I don't see how that is possible here—to employ any of the other banks.

3275. Why not, if they act under very definite instructions from you, and take the custody of certain notes that you have, and act under instructions in the line of rediscounting paper and so on, which they hold for you? Why shouldn't they act just as an agent, that is, the branches of some of these banks in different parts of the country?—(Mr. Jorissen.) It would be going dead against their own interests.

3276. (Professor Kemmerer.) In any place where you would be likely to want an agency, wouldn't there be likely to be some responsible officers of the Government located who would be handling financial matters, the collection of taxes, or what not?—Do you mean that we should ask them to discount bills for us?

3277. No. I mean for the custody of notes, so that you could get a double responsibility, and keep them in such a form that they could only be paid out by a double signature: one by the bank, and one by a Government official located in the place?—(Mr. Clegg.) You mean by some other bank? That would afford only a means of keeping our note issue in better order. We have adopted means for that already. I think the note issue problem is really more or less solved. But so far as discounting bills is concerned, I must say that I should not like to trust that to anybody but a bank official, somebody directly responsible to the bank.

3278. One of your own officials?—Yes. I don't think that question is going to be a very difficult one to solve. I mean, we could start branches in three or four of the chief coast towns. It isn't going to be a very expensive business to do it in a small way to start with. We could have a branch in Cape-town, Port Elizabeth, Durban, East London. There we should find the bulk of the export bills. But at the same time I think you have always to bear in mind that when you have the central bank going for the cream of the other banks' business, it is going to be rather a difficult position. Another thing, what is going to be the result if they can't find room for their resources at present if the Reserve Bank comes in?

3279. If this country is over-banked with its two large commercial banks and one small one and the Reserve Bank, why, I suppose, the obvious answer is that some of the banks will have to be either closed, or they will have to curtail their operations and withdraw their capital. I don't see why it isn't possible. It seems like a very substantial amount of business. And, of course, if it is to be a reserve bank, and keep its assets highly liquid, because its liabilities are largely in the form of notes and of bankers' deposits, which are the bankers' reserves, to do so it would have to take the cream of the paper, and make rates sufficiently favourable to enable it to get the cream of the paper. I don't see how the Reserve Bank can function, and pay its expenses, if it doesn't do something of that kind?—I admit that. It is a problem that has occupied a good deal of our attention during these last few years—to do this without injuring the other banks too much. I have always hoped that we should see a certain amount of new business in the country after the slump, and that the other banks would actively employ us in rediscounting, and that they would be so educated to the advantages of having a reserve bank that we might expand gradually without creating too much friction.

3280. It would seem, on the surface, that one reserve bank, with only two or three other banks, could not function permanently and successfully unless it did go out in the open market and do a very substantial amount of business. And, of course, if it is to be a reserve bank, and keep its assets highly liquid, because its liabilities are largely in the form of notes and of bankers' deposits, which are the bankers' reserves, to do so it would have to take the cream of the paper, and make rates sufficiently favourable to enable it to get the cream of the paper. I don't see how the Reserve Bank can function, and pay its expenses, if it doesn't do something of that kind?—I admit that. It is a problem that has occupied a good deal of our attention during these last few years—to do this without injuring the other banks too much. I have always hoped that we should see a certain amount of new business in the country after the slump, and that the other banks would actively employ us in rediscounting, and that they would be so educated to the advantages of having a reserve bank that we might expand gradually without creating too much friction.

3281. This country has been going through a very vigorous deflation apparently during the last few years?—Yes.
All the evidence of a statistical character that we have concerning the banks' assets and concerning prices seems to show that. I think it is pretty nearly the universal experience that when a country is going through a vigorous deflation, with falling prices, and with a situation in which all debts that are incurred are likely to be required to be paid in a more valuable monetary unit than the one in which they were incurred, that the tendency is generally for all kinds of business houses to play for safety. A concern that is thinking of expanding its plant will say: "If we buy now, we are likely to be buying at the peak of prices. They are going to come down soon. We'll wait." The wholesaler says: "Why load up supplies now, because the tendency of prices is downward. We'll just live from hand to mouth." The retailer says the same thing. So the tendency is for everyone to hold back; and anyone who considers the question of borrowing says, "Why borrow now and use the proceeds for buying goods at high prices, and then be compelled to repay later when prices are low and the money is much more valuable?" The result of that situation is that people say: "Let us put our funds in the bank for the time being and abide our time until the outlook is better." And so the tendency is through any period of deflation for bank deposits to increase and for a great demand for short-time gilt-edged securities, which are maturing right along, so that the investor does not lose much by this appreciation process. That tends to put the interest rate down very decidedly on these gilt-edged securities, and to pile up money in large quantities in the banks, which the banks don't know how to use. As soon, however, as the period of deflation is over, and prices become reasonably stabilized, then people want to sell these securities because they are yielding a very low rate of interest, and to withdraw their funds from the bank, which are relatively idle, and put them into industry. That was our experience in America during and after the deflation period. It has been the experience of a number of other countries, and it would probably be the experience here. So, if you stabilize your currency now, and stop this long period of deflation, there would seem to be quite a probability that you may have an expansion which will make increased demands upon you for increased facilities from the banks, demands that would justify the banks in bringing some of their balances back?—Of course, that is a very common experience in London. After a period of boom you get a period of depression, with funds coming into the London market with interest rates very low, and so on. When the time of expansion comes on, the rates go up, but I don't think you have anything of that in this country. Look at the deposits here. There is a continuous fall of deposits all the way along.

But the deposits don't seem to have declined in this country any more than the value of the pound has gone up. If you take your deposits and measure them in terms, not of a changing monetary unit, but in terms of purchasing power, that is, convert them into values at the current index numbers, you find there has been almost no change. The apparent decline has been a decline due to the fact that in South Africa you have changed the value of your monetary unit to one something like 74 per cent. greater than it was in the second quarter of 1920. Compare the figures for the decline in deposits with the index numbers: From the high quarterly figure of 1920, Great Britain's prices fell from an index number of 322 to 167 in September, 1924, representing a decline of 48 per cent., or an appreciation in the value of the pound of about 93 per cent. The South African index number fell from 232, which was the high point, to 125 in July last, which was a decline of 47 per cent.; and 133 in October, which is a decline of 43 per cent., and represents an increase in the value of the South African pound, namely, in its purchasing power, of 74 per cent. If you take the decline in your deposits in that time, or in bank liabilities—there is something like the same percentage. The decline in deposits is, therefore, not real. You used to measure values by a 2-ft. yardstick, and now you measure them by a yardstick more than 3 feet long, so
there are less yards?—I quite see that argument, but, looking at it from a purely banking point of view, surely it is caused by a cancellation of credit?

3284. Take these big balances the banks are holding abroad.

If you assume that for the last two or three years gold has been reasonably stable in value—and the American price level justifies this assumption—you will note that the banks that have transferred these big balances abroad, and have held them there, have probably made a very nice return on their investments, measured in gold values. In 1921, the average monthly cross-rate was, in round numbers, 3.85; in 1922 it was 4.43; in 1923, despite the big decline that took place in the latter part of that year, it was 4.57?—What does the 4.57 represent?

3285. The average monthly cross-rate for the year. And at the present time, of course, the rate is about 4.70. A bank that put money abroad and left it there, if it bought at these earlier figures and received a moderate rate of interest on its balances, has had an appreciation in the value of its principal in terms of gold that has given it a handsome return. It has been a very good speculation on the average. There have been times when it went even higher. Recently the tendency has been upwards; so that even if there were opportunities here the opportunities over there to buy an appreciating monetary unit and hold it there, meant a pretty good thing. Whereas here, if you invested it in goods of any kind, you saw the prices going down and down; if you invested it there you saw the gold value going up and up; and from this evidence the banks would appear to have made a nice profit by holding these big balances abroad. That is not going to continue if sterling is stabilized; and if sterling is not stabilized very soon and goes the other direction—because they can't clinch parity—there are likely to be losses?—Yes. Of course, all the time your liabilities have been increasing in value too.

3286. Yes, so far as the deposit liabilities are concerned. But in a good many cases a good share of their capital and reserves have been transferred abroad, and that is only a liability to their own stockholders?—Yes.

3287. In connexion with the exchange rates, there has been, as you know, considerable complaint from various sources in this country that the banks were exacting too wide a margin between their buying rates and their selling rates. This question came up at the last meeting of the Imperial Economic Conference, and it was commented upon there; and, as I recall, the point was made that the range between the buying and selling rate was higher in South Africa than in any other important part of the British Empire, except Australia?—Yes.

3288. There has been some reduction in the rate here since that time, I believe?—No, I don't think so—it is still seven-eighths.

3289. It is still seven-eighths?—Seven-eighths.

3290. We would like your judgment on that question?—I think the margin is too big. But I think the banks' point of view is that there is no real market for exchange; that they are, therefore, more or less in the dark, and that they are justified in having a higher rate than ordinarily obtains in a very active exchange market. But, nevertheless, seven-eighths does seem to be too high.

3291. Mr. Pearsall has figured out* that with the usual margin of differences between buying and selling rates for demand drafts, that a bank by buying and selling demand, and making its turnover as rapidly as it would be possible to do so, would realize something like 14 to 15 per cent. profit on the funds invested during the year; that is, assuming it would be turning its funds over continually. That is a pretty good rate of profit for an eminently safe sort of investment such as dealing in high-grade demand bills?—But is that really a true figure? Supposing a man has to turn over, say, £100,000 a year; is it possible for him to remit £100,000 here and he has to pay, say, once a quarter seven-eighths on £25,000. He doesn't pay more than the seven-eighths on the whole.

3292. We are speaking of the banks' point of view?—I know.

3293. The bank is buying bills. When it has bought it sends the bills over there, and immediately sells drafts against them—the bills and the drafts might possibly go out on the same steamer?—You are thinking of the possibilities which it gives to the bank.

3294. Yes?—Still, I have seen it argued so often that the merchant is paying 14 or 15 per cent., which is not true.

3295. It has been argued before this Commission that this margin is too high, that it is unfair to the public here, and that the Reserve Bank, as the representative of the public interest, should come in and force a narrowing of the margin by quoting a more favourable rate in one direction or in the other direction, so as to force the banks to reduce this margin. What is your judgment on that?—One is necessarily speaking rather in the air. Here we are in Pretoria without a single branch, without having started the business. And I feel that I should be speaking like a braggart if I were to say we should at once go and reduce that margin. I can only say I think that margin is too high, and, if the Reserve Bank were in the exchange business, undoubtedly it would be advisable for the Reserve Bank to offer facilities to the public for dealing in exchange forward?—Oh yes. The bank is buying bills. Do you agree when it starts doing that, that it would be advisable for the Reserve Bank to offer facilities to the public for dealing in exchange forward?—Oh yes. I should like to say here that these are necessarily things in which the Reserve Bank Board would have to have its say. I know that my colleague here agrees with me in this. These are matters which we have talked over, but I could not commit the Reserve Bank.

3296. Don't you think the time has arrived when the Reserve Bank should get into the exchange business and establish these branches that are necessary for doing so?—I think the time has arrived when we ought to make a beginning.

3297. Of course no one expects you to do the whole thing at once?—No, I agree. I think the time has arrived when the Reserve Bank should make a start in buying foreign bills and endeavour to have some influence in the exchange market.

3298. Do you agree when it starts doing that, that it would be advisable for the Reserve Bank to offer facilities to the public for dealing in exchange forward?—Oh yes. I should like to say here that these are necessarily things in which the Reserve Bank Board would have to have its say. I know that my colleague here agrees with me in this. These are matters which we have talked over, but I could not commit the Reserve Bank.

3299. We consider you are speaking for yourself, of course. You cannot commit your Board of Directors as a whole to anything?—That is so.

3300. Another criticism that has been made frequently before this Commission is the absence of direct exchange with other centres than London. It has been claimed that the two banks that operate here, operate almost exclusively with London, and that if it is desired to make payments in any other financial centre, or to receive payments from other financial centres, the banks practically insist that they shall be effected through London; and that by this roundabout way they make additional profits and impose upon the country additional expenses. It has been argued that there is no reason why the banks here should not quote regularly exchange on New York and on Amsterdam and possibly on other places. Each of the banks has a branch in New York. This country does considerable business with the United States, and it is always possible to transfer sterling funds to New York at a minute's notice. Yet there is no direct exchange. Has not the time arrived when that should be established? And if the commercial banks are not willing to go ahead and do it of their own accord, has not the time arrived, or will it not arrive soon, when the Reserve Bank should come in and perform that function?—Before answering that, I should like to know the amount of demand there is for direct exchange with New York, Amsterdam, and so on. I can quite conceive that the banks here may have got so much into the habit of dealing entirely with London that they have been perhaps rather sluggish in attempting to break out into a fresh line. I certainly think if there is any considerable demand for exchange on other countries, that it is the duty of the banks to provide it.

3301. One cannot readily tell how much demand there is as long as the custom has been established here of dealing almost exclusively through London, and as rates in other centres are not
published. The public don't know what is available. It is
certainly true that a substantial amount of business is being done
between this country and America, and that the percentage of
your total foreign trade which is with America has been increas-
ing more rapidly than the percentage of the total trade of this
country which is with Great Britain in the last few years. The
percentage is small, but it has been increasing at a fairly rapid
rate. It is also apparently true that a great many of the goods
that you sell to Great Britain and that are financed through
Great Britain, find their ultimate market in America?—Yes.

3302. For example, it has been stated to us that nominally
about two-thirds of your diamonds find their ultimate market in
America, and the great bulk of your gold for a number of years
has found its ultimate market there; and England in this
connexion has been largely a go-between. These articles have gone
to England, and have been transhipped to America. So that,
if direct exchange were developed, it is quite possible that the
amount of business that you would have with a country like the
United States that would be carried on directly, would be
materially increased, and that, by eliminating these roundabout
methods, there might result a reduction of expenses in which
South Africa would gain. I don't know: I am just throwing that
out as a possibility?—I can conceive of that as being quite possible.
Of course one knows that a large part of the trade with America
is conducted through Great Britain, but that is partly owing to
the fact of the regular steamship service.

3303. It is always difficult in a case of this kind to tell what
is cause and effect?—Considering the early trade relations with
England which continued right throughout the centuries it was
probably the line of least resistance to do everything through her as
she always offered a very ready exchange market. There were great
facilities there for dealing with foreign goods; it was a world
emporium of goods.

3304. There were more frequent sailings to America, I under-
stand, some time ago, than there are now, although your trade
with America is greater than it was some years ago?—Is that so?

3305. When you have a situation where the agreement with
the mining interests is that all the gold shall be shipped to the
London market, and when you have a control of the diamond
industry through the diamond syndicate, and you are cutting and
polishing your diamonds in the Netherlands, you have a situation
that is favourable toward doing your financing in that way; and
when both of your banks here are banks with strong London
connexion; and when furthermore they make a little extra charge
in addition to the regular rates when they transfer from New
York to London, or London to New York, there is a motive of
profit there. That is a real motive, and naturally they would not
want to lose that profit?—Of course it is true to say, anyhow
before the war, that a large part of the world's financial business
was done through Great Britain as intermediary, even when the
countries concerned had no direct connexion. You might say
that that, coupled with the strong financial connexion between
this country and Great Britain, would very largely account for
the fact. I should say, personally, looking at the thing from
a detached point of view, that if there was any considerable
demand for exchange with America, that demand ought to be
met.

3306. My point is not whether this development has not been
historical and perfectly natural and regular and all that. The
point is, if there is a real economy to be realized through more
direct dealings, instead of by these roundabout dealings, and if
there is a prospect that South Africa would participate in those
economies, then isn't it desirable to open up those facilities; in
other words, the more direct your dealings, ordinarily, the
quicker your shipments, the greater the efficiency, and the less
expense. And the whole tendency, I suppose, in trade, is to
eliminate the middlemen, and to deal as nearly directly as
possible?—Of course there is another factor: a large part of these exports to America are financed in London.

3307. I doubt if that is so now. It was true before the war. But the New York market has been financing Europe so heavily lately that I doubt if that is true now.—Do you know if much business is done through American bills? I have never come across any.

3308. Perhaps I misinterpret you here. My point was, I don't think that the gold or the diamonds that are sold to America on any considerable scale are financed in the American market through British credit. While they are moving from here to London, and while they are in the London market, I suppose they are financed by London credits, but I doubt if they are nowadays financed long by London credits after they are shipped to America?—What I mean is, if a man wants to do the business this side, he gets a London credit. That is the market to which he naturally goes. If you can get him to go to New York for his credit, I should think the natural tendency would be to do it direct.

3309. Do you think those two things are necessarily tied up together?—I don't think they are necessarily tied up together. But you know how people work. They get accustomed to working in a certain way, and they stick to it. (Mr. Jorissen.) I think it is true to-day that the continental seller wants a London credit. Sellers from Holland say, “All right, we'll send you the goods, but we want a credit in London.” Then, quite a number of our biggest imports from America, if I am not mistaken, are motor-cars. America does not finance that to any extent.

3310. How are they financed?—By credits opened from here by the two banks in New York. They did do a certain amount, but they got rather tied up. So they have to be financed either from here or through London.

3311. Motor-cars are shipped directly here generally, are they not, and the bills are drawn on the buyers here, and shipped from New York here by way of London?—Yes. (Mr. Clegg.) But the bills are bought by the South African banks in New York.

3312. Not many people in New York know anything about South African credits?—(Mr. Jorissen.) The shipments are not financed by any American banker.

3313. It takes time in any market to make the people in that market familiar with the credits of another market. Take Canada, for example: Canada can get anything she wants in the New York market. New York knows Canada. Canada has been operating in New York so long that she can get anything. Take perhaps another country like South Africa, whose credit might be just as good, but which is unknown. It probably could not get the facilities that Canada gets, because it is comparatively unknown to the American investor. Until South Africa makes itself known, and the American public realize the character of the country, and realize that the risk is good, and become familiar with South Africa's securities, South Africa cannot expect as good terms as Canada gets. After it has got the market, it could probably get as good terms as Canada and other countries similarly situated?—The curious thing about that is, the South African banks finance a large part of the American exports to Australia.

3314. They told us that they had so much funds that they found it more profitable to use them in London, and in the Australian trade than here?—They have been doing that for a long time.

3315. How long?—For a good many years back, seven or even ten years. Four years ago the banks had no funds in London practically.

3316. That was a temporary situation, the time of the 1920 slump?—Yes.

3317. There is another subject in which we are much interested, namely, the proposal for a State bank?—(Mr. Clegg.) Have you had any protagonist of a State bank before you?

Yes, and we have another one scheduled for Monday.
Mr. William Henry Clegg and Mr. Hendrik Christiana Jorissen.

3318. (Dr. Fissinger.) We had a very useful discussion with Mr. Wilmot on the agricultural credit scheme. He told us it would be entirely sufficient to develop the Land Bank.

3319. (Professor Kemmerer.) It has been suggested that if the Land Bank would insist upon the use of acceptances in connexion with the financing of agricultural co-operative societies, for farm implements, crops and so on, that that would encourage the use of bills, and help provide a rather high-grade type of bill that could be rediscounted in case of need at the Reserve Bank. We would like to have your opinion on that?—(Mr. Clegg.) What is the idea? Who would be the drawer of the bill?

3320. (Mr. Middleton.) The bills would be given by the co-operative societies in favour of the Land Bank, but the Land Bank would rediscount with you?—It is an advance to the co-operative societies?

3321. Yes?—Personally, I don't think that is a bill which a central bank ought to have. It is too sticky. It is not sufficiently liquid. I think for that you would want an agricultural credit scheme. I don't think the Reserve Bank comes into that.

3322. It seems to me it is financing the produce of the country?—It is not self-liquidating. I am not saying anything against the transaction, but it is not a Reserve Bank bill.

3323. (Professor Kemmerer.) Supposing you gave them an advance against their produce at a very moderate percentage of its market value at the time the advance was made; wouldn't that be practicable?—I think it would be practicable, but I don't think it is a bill under the Act, or that it is a good trade bill. Personally I don't call it a real trade bill, as understood among bankers generally.

3324. Can't you rediscount or discount straight promissory notes that carry collateral with them?—Not a single-name promissory note. We would take a promissory note with two good names.

3325. If a one-name bill, it has the promiser's name, the discounting bank's name, and the collateral. Couldn't you rediscount such a bill?—Well, I don't say that we would not do it. I am not quite sure. But in my heart of hearts, brought up as I have been brought up, I don't regard that as a real bill. I always think of a trade bill as something representing a debt which may be expected to be turned into cash at the maturity date of the bill.

3326. In America we have had a large development, in some ways unfortunate, and in some ways fortunate, of the promissory note; and a substantial part of the rediscounts of our Federal Reserve Banks are rediscounts of promissory notes; that is, two-name paper. It bears the name of the payer and the name of the discounting bank. We insist that a Federal Reserve Bank shall only handle such paper when it is used for carrying on bona fide commercial transactions of a self-liquidating character?—That is the principle of it. The right principle is that the paper must be self-liquidating, not something in the nature of an advance against produce. (Mr. Jorissen.) Am I wrong in thinking that the first Reserve Bank Act did not allow for that? It was only after the reserve banks found they got no paper that the Act was amended and made easier?

3327. The Reserve Bank could not, at the start, buy any such promissory notes in the open market, I believe; only acceptances. But from the very beginning, I believe they could rediscount promissory notes for member banks. We made quite a distinction in America as to what the Federal Reserve Banks could do in the open market operations, and what they could do in their business with member banks. A promissory note from a member bank would bear the member bank's signature, and that of the payer, and that was possible from the beginning. There was a great fear that we would overdo the bank acceptance business at the start, and then there was a great fear that these open market operations would bring the Federal Reserve Banks into competition with the other banks?—(Mr. Clegg.) We can take promissory notes with two signatures.
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3328. When only one of these signatures is that of a bank?—We can take it from the open market when it has two names.

3329. Could a bank rediscound with you paper bearing one signature in addition to its own?—Yes. I should very much like, if I may, to make a suggestion that before you make your report, you consider the needs of agriculture in the way of further credit, because at present the agricultural community is very largely in the hands of the importing merchant. You get a blockage of credit all along the line. And the farmer suffers in two ways. He has to buy everything he wants from the storekeeper, and he has to sell everything he produces also to the storekeeper.

3330. The situation we are in in that regard is this: That would seem to be a very big and important problem, but we are here for about a month's time with definite instructions from the Government to report on the question of the advisability of returning to the gold standard 1st July next. Our terms of reference limit us to that subject, and we can only consider others in so far as they are clearly collateral to that. I am afraid we would be rather straining our terms of reference if we went into the whole subject of agricultural credit. We would like to know from you what suggestions, if any, you have in the line of possible amendments to the Reserve Act that would strengthen the bank in its powers to carry out the functions it would naturally have if and when the country returns to the gold standard?—Well, I should like to defer giving any full answer to that question for a day or two, if I may. The thing that strikes me most of all at the moment is that clause which prohibits our holding more than one-quarter of our reserves in gold earmarked abroad, because it seems to me that if the Reserve Bank had to undertake to keep the Sixth African pound at parity with gold, it might at times have to hold quite a considerable amount of sterling.

3331. Would you like to have that percentage increased?—Yes.

3332. From, say, one-quarter to one-half—that would be sufficient, do you think?—Yes, I think so. My point is that our resources here, if we hold merely sterling balances on the other side, would not permit us to hold very much; and we ought to be allowed to reinforce the amount which we hold in sterling balances by being able to keep some of our gold there in case of need.

3333. You spoke this morning about certain phases of the gold exchange standard. Do you think it would be advisable to do in South Africa what I mentioned this morning was done in Colombia; that is, amend the law so that the Reserve Bank here, while it would normally redeem its notes in gold coin on demand, would, in times of emergency, have the option of redeeming its notes either in gold coin in South Africa, in gold bars in South Africa, or in a gold draft on some money market centre at a price not in excess of the premium that would be necessary to cover the exportation of gold to that centre?—I agree entirely with the first two points. As regards the third, I am not quite clear. May I just ask a question? For instance, whether when you don't want to pay either in gold coin or in gold bars and said, "We'll give you a draft on London," whether the draft on London would be such as would enable the recipient to get an amount of pounds sterling to that ease, the equivalent of gold in London?

3334. I want to qualify that the draft would be for a sum sufficient to enable the recipient in London to obtain that amount of gold in a free gold market; that is, if there was a prohibition on the exportation of gold in London, then it would be necessary to give a draft sufficient to enable the recipient in London to buy exchange in New York and lay down the full equivalent in New York. This assumes that South Africa has returned to the gold standard?—I see.

3335. It would not do to buy gold in a market that is restricted?—No.

3336. My idea is, if, to meet the possibility of a drain of gold resources, which is some people seem to anticipate as a possibility, you had a provision that in time of emergency—you might even
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say with the approval of the Government—if you wished to protect your gold, that redemption could be made in either of these other forms, but each of those forms would be in full gold value. Redemption in drafts would only mean that the gold would be laid down outside of the country instead of inside the country. It would be laid down without any loss to the recipient. As far as the bars are concerned, you could lay them down here; for shipping purposes bars are just as good as gold coin or better. That would be a very decided restriction upon the use of gold for hoarding purposes.

3337. (Dr. Vissering.) Who is to judge what is an emergency?

3338. (Professor Kemmerer.) In this case it would have to be when the Reserve Bank considered it was an emergency, and when this decision met with the approval of the Finance Minister, or something of that kind. I am not suggesting that there should be any suspension of gold payments. In any case, you would have to redeem your notes, but you would have an option as to the form of the gold payment in which you would redeem them.

3339. (Dr. Vissering.) Would it not be advisable that notes should not be redeemed here in gold, for that means you are putting gold into circulation?—(Mr. Jorissen.) That is the difference between going to the gold standard and the exchange standard. (Mr. Clegg.) My idea was you should not be obliged to pay your notes in any form of gold here, unless the demander could give evidence to show that he required it for export.

3340. (Professor Kemmerer.) That is a cumbersome sort of machinery. In this form I am mentioning, it would amount to much the same thing in effect. In order to promote the actual gold standard here, you would be required to redeem in sovereigns here, except as an emergency arose, in which case that would be determined by the Reserve Bank in conjunction with the Minister of Finance; and when such an emergency arose, you would say: “We will redeem in gold bars or in gold exchange.”

3341. (Dr. Vissering.) When it was required for export, no matter to what country? For example, to Portuguese Africa or Rhodesia?—It would not be for Portuguese Africa or Rhodesia. They are not gold centres. (Mr. Jorissen.) If I understood Dr. Vissering right, his point was, wouldn’t we get into serious difficulties in this country if we had gold coin circulating here? (Mr. Clegg.) That is what I fear. I perfectly see theoretically the virtues of the gold standard. But you know the people who have to carry it out sometimes have their fears. The fear I have is that if we got there, we might not be able to carry it out. Supposing you had large imports suddenly, a series of large imports, and small balances in London: the Reserve Bank might be called upon to sell drafts on London when we hadn’t got the money there. We would have to provide the money in some way. Could we always be sure of having sufficient drafts on London to meet that drain?

3342. (Professor Kemmerer.) If you have those large imports, you would have the funds here?—They are not always paying for them straight away.

3343. They are, if the banks insist on it; otherwise they don’t get the imports?—The banks may not insist.

3344. The banks have the right to say: “You must pay for the bills you are buying,” and the banks have the right to adjust their rates according to market conditions?—Supposing the Reserve Bank is responsible, and the other banks are not sufficiently careful?

3345. Then, the Reserve Bank has to make its rate effective. I cannot see that there is any material change in the situation now from what it was before the war, when there was no difficulty in that line. They didn’t have a mint here then, and they didn’t have a Reserve Bank?—My fear is, we have ten millions of gold. You might easily lose two or three millions of that. That means you have to reduce your note issue by two and a half times that, or your liabilities.
3346. If you lost for exportation two or three millions of gold specie, it would be because your circulating medium had become redundant here, and therefore cheap, and that people were presenting it for gold, and taking the gold out of the country. That would mean that you would need to have a contraction of your currency. The very fact of the gold going out is evidence of that. When you get that contraction, of course you reduce your reserve balances or percentages. But in proportion, as gold goes out, your exchange rate tends to go down; and in proportion as the gold goes out, the money market tightens up here, your interest rate tends to rise; and the Reserve Bank itself ought to push up its discount rate under such circumstances. If you have ten millions, and only lose two or three millions, you still have a substantial balance; and if you keep 50 or 60 per cent. reserve normally, you can lose quite a little before you get down to the 40 per cent.; and then there is no limit you cannot go below the 40 per cent. if you pay the tax. And that is just what the tax is for, to put on the screw, and make the market tighter and tighter, when too much gold goes out and to stop a dangerous outflow. I think it would be effective very soon.

3347. (Dr. Vissering.) I believe that in England gold will not again be put into circulation. In Switzerland they have tried to do so, but it was not a success. Holland won’t do it?—Holland won’t do it?

No, Holland won’t do it. Germany will not do it.

3348. (Professor Kemmerer.) We in America are doing much to put gold into circulation. We are succeeding in doing so in the form of gold certificates; that is, for a very large reserve that if it were announced to the public it would not want to inflate.

3349. We don’t want to encourage inflation by having such a large reserve that if it were announced to the public it would induce the public to say, “You have lots of money. Lower your discount rate and lend freely and cheaply.” I cannot see that gold goes in or out for any other reason than is the case with other commodities. The minute gold goes out for any reason, it tends to get dearer at home and it will thus be checked in its outflow. And you are in a much better position than any other country I know of not to be drained of your gold, because you are at the source of supply. Other countries, if they try to restrict the movement of gold, can have no effect on you?—I can’t get over the fact—I suppose I am very heterodox on this point—that although gold is the same as any other commodity, it is the only commodity that is the basis of your banking system, that is the basis of your credit system.

3350. I don’t think that affects the system fundamentally. It makes it important from the standpoint of money that you have a good bank reserve, just as it is important from the standpoint of food that you have plenty of mealies. Although the purpose of the demand is different, from the economic point of view it is just as much a demand for an article if people are willing to pay for it, in order to get it to eat, as to get it for the purposes of currency?—Don’t you think the speculative element enters into it?

3351. It may in both cases. The check comes in more quickly and effectively when it tends to go out in large quantities. Gold is more responsive to this pressure than are most other commodities?—(Mr. Jorissen.) Isn’t there also the psychological question, the question of the trust of the public in your banking system?

3352. Yes?—The point I am trying to make is this. We have, as Mr. Clegg says, ten millions. Say a drain takes place and we lose half. What I have at the back of my mind is the fear of a gold drain here by the public in South Africa, that our gold has disappeared. There is nothing in place of it, and before you wake up one fine morning, you will find a general run on the banks.

3353. (Dr. Vissering.) I suppose you would not defend the creation of a State bank?—(Mr. Clegg.) No, I am not in favour of a State bank. (Mr. Jorissen.) I gave evidence before a Parliamentary Committee in 1920 about a State bank. (Mr. Clegg.) The
advocates of a State bank in this country are chiefly people who want cheap credit. (Mr. Jorissen.) Which they will never repay. That is the idea. (Mr. Clegg.) A man came to me. I had said in a bank address at our general meeting last year that the machinery for granting credit in this country was entirely adequate, but what was wanted was the good business to justify the credit. That man wrote me a letter and said that he had certain oil-bearing fields, and wanted £200,000 as an advance. He said he couldn't get this from the banks. He said he had expert opinion which would prove that oil could be produced from these fields, that we were spending at present about two millions a year in American oils, which would all be saved; and we would get about 100 millions profit out of it. How could I justify myself in saying that the machinery for granting credit was entirely sufficient? I said to him, if he had such a good, sound proposal, it was very extraordinary that he could not get capitalists to put up the money. Then he wrote again in the same strain, it was very extraordinary that he could not get capitalists to put up the money. If they couldn't have a Reserve Bank that would give the credit, they would have to have a State bank to do so.

3354. (Professor Kemmerer.) The point has been urged in certain circles among people who have been thinking that the Reserve Bank ought to come out and function more vigorously in the open market, and ought to force down the discount rates and force a narrowing of the margin between buying and selling rates in exchange; that if the Reserve Bank kept aloof from the open market, if it did not come out and operate vigorously in such a way as to assure the public "more reasonable rates" in a country which, they claimed, was ridden by practically a banking monopoly, that it would be necessary to bring some bank in that would do these things. And it has been said that if the Reserve Bank did not come out and act in this way, you would be playing right into the hands of those people who are advocating a State bank, and that, politically speaking, the ultimate result would then be either the substitution of a new State bank for the Reserve Bank, or the reorganization of the Reserve Bank into a State bank?—I think there is a good deal of confusion of thought on that subject. There has been a certain amount of call for the Reserve Bank to get into general competition, but that call has been mostly that the Reserve Bank should make advances against produce and land and that sort of thing; that it should do the ordinary bank's business in this country, and give overdrafts at a cheaper rate than the other banks do, which the Reserve Bank could not do, anyhow. (Mr. Jorissen.) Plus being a mortgage bank.

3355. (Dr. Vissering.) Is it a powerful party that is advocating the creation of a State bank?—(Mr. Clegg.) No, I don't think the driving force is at all a powerful party. But the idea of cheap credit, of course, appeals to a great many people who have not thought about the subject at all. I think the Labour Party are keenly in favour of a State bank.

3356. (Professor Kemmerer.) It is rather strange, if you have a reserve bank here for only two or three commercial banks which are claiming that their funds are so large here that they must keep a portion of them in England, and even use substantial sums for transactions with Australia, and if the Reserve Bank is not called upon to any extent to help those banks, except one of them temporarily, that now there should be advocated the establishment of a State bank to come in and add itself to this machinery. The idea, I suppose, is not that it would add itself to the machinery, but that it would supplant a large part of the machinery. That is the idea.

3357. (Dr. Vissering.) The Land Bank is to a certain extent a State bank?—It is not a bank at all. It is merely a machine by which the Government advance money to farmers.

3358. (Mr. Middleton.) It is really a sort of loan office. It isn't a bank in any sense, and should never have been called a bank. In New Zealand a similar Government department, doing a very much larger business, with a less pretentious establishment,
(Mr. William Henry Clegg and Mr. Hendrik Christiaan Jorissen. is styled “The Government Advances Office.” (Mr. Jorissen.) They have only funds from the Government to lend out to farmers on first mortgage. Then they do a certain amount in seasonal advances to the co-operative societies, over which they have lost very heavily.

3359. (Professor Kemmerer.) I think that is all we wish to ask you to-day, but we would like to feel free to call you up for testimony again if occasion arises; and we would like from you a statement of any amendments you think desirable to the Reserve Bank Act in connexion with the particular problem that the Government has placed before this Commission?—I am in your hands any time you want me. As regards the other, if you will give me two or three days, I will let you know.

3360. If you will submit a memorandum suggesting certain changes, we will probably want you to appear before us again in order that we may question you on those suggestions?—Yes.

MONDAY, 29TH DECEMBER, 1924.

SIR ERNEST CHAPPELL, K.B.E. (examined).

3361. (Professor Kemmerer.) What is your present position?—I will tell you, briefly, my history. I have been a wholesale merchant all my life. I have only just recently retired. I was with the firm of Mosenthal’s, one of the largest in the country. I was their resident director here in the Transvaal. I have been with them thirty years. So I have seen a good deal of the growing up of the Transvaal.

3362. Your business has been primarily export?—Partly export, and also importing on a very large scale; probably the largest in the country, and very varied; mining supplies, building material, soft goods, every conceivable thing, practically. We export wool, mohair, feathers, hides and skins, etc. We are now going in for cotton. I say “we” from force of habit—I have retired now. It has for years past been one of the biggest businesses in the country. It has been closely interwoven with the development of the country nearly a century now. And as a necessity, in being a head of a concern like that, one has to have a knowledge of the affairs of the whole country. Before that, I was in London in Rylands & Sons, Ltd., and Bartrum, Harvey & Co.

3363. How long have you been a director of the Reserve Bank?—I have been a director of the Reserve Bank since its inception. I was a member of the conference that led to the establishment of the Reserve Bank. I have been a member of a good many Government Commissions of one kind and another on financial and taxation matters, so that I have had an insight into public work of that kind as well. I have been a director of many companies also.

3364. What do you consider to be the proper function that the Reserve Bank in South Africa should perform?—May I, before I directly answer that question, mention one or two facts in connexion with it?

3365. Certainly?—Our banking position in the Union here at one time was very different from what it is now. We had a fair number of banks. We had the Standard, the National, the Bank of Africa, the A.B.C., the Natal Bank, and one or two others. We had, at any rate, a reasonable number of banks, all competing with each other to a certain degree for the business of the country. Gradually, by means of absorption and one or two other causes, they all came together and they were more or less focussed—I am omitting the Netherlands Bank for the moment—into the National and the Standard. To all intents and purposes we have only three now: the Standard, the National, and the Netherlands Bank.

3366. The Standard and the National do the great bulk of the business?—They do the bulk of the business. The Standard is the biggest of all. The National has been very close indeed to it
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in point of size. The Netherlands is relatively very much smaller. Now, at the time of the establishment of the Reserve Bank it was obviously desirable to work as far as possible in close conjunction with the three banks. The establishment of the Reserve Bank was resisted, not unnaturally, by both the Standard and the National. The position taken up by the Netherlands was different from the others.

3367. (Dr. Vissering.) The fusion of the banks took place before the Reserve Bank was established?—Yes.

3368. At the time the Reserve Bank started, there were only the two big banks and the Netherlands?—Yes.

3369. (Mr. Middleton.) And the African Banking Corporation? That could not have continued very much longer afterwards. But substantially the position is much as I have stated it. That being the position, you will readily understand that it was not altogether easy to get the Reserve Bank principle accepted; and when we revised the Bill that created the Reserve Bank, there was a general endeavour to bring about a position of affairs which would render it as acceptable as it possibly could be made acceptable to the Standard and the National Banks. Therefore, provisions were made which practically prevented the Reserve Bank from doing business in the ordinary way.

3370. How do you mean "provisions"?—For instance, they can't accept money on fixed deposit.

3371. (Professor Kemmerer.) When you speak of provisions, do you have in mind the limitations upon their operations as fixed in the law?—Yes.

3372. That is all you have in mind?—That is all. I was one of those always of opinion that the Reserve Bank should take a more active part in the banking operations of the country, but on the other hand, I admit that I was in full agreement with the policy then adopted, because one had to go slowly at first.

3373. The Reserve Bank Act, while it does limit the kinds of business the Reserve Bank can do, is, after all, fairly liberal in the privileges it extends to the Bank?—Yes.

3374. A central bank in every country is likely to have the exclusive, or nearly exclusive, right of issuing notes?—Yes, quite. It has that.

3375. It also has the right and duty of holding a large part, if not the greater part, of the bank reserves of the country, so that its liabilities are all, or practically all, demand liabilities so far as the public is concerned?—Yes.

3376. Therefore its assets need to be highly liquid?—Very liquid, yes.

3377. If its assets must be highly liquid, it naturally follows that the character of the paper in which it may invest, the character of the loans it may make, must be pretty narrowly limited to short-time commercial paper or short-time Government securities that can be turned into cash quickly and without sacrifice at very short notice?—Certainly.

3378. That has been done here, I understand?—Yes.

3379. But aside from limitations of that kind and the limitation that the Bank cannot pay interest on deposits, this Bank has pretty nearly as wide powers, as far as the law is concerned, as most central banks, has it not?—I agree. It can do a great deal. But it must be remembered when we first formed the Reserve Bank, we thought it advisable to put representatives of the various banks on the board. The three banks were, therefore, represented on the board. Well, it was found later on that this didn't work quite so well as it was anticipated, and, therefore, it was decided that they should be withdrawn; and that has, as you know, now been done.

3380. (Dr. Vissering.) Has it caused bad feeling among the banks that their representatives have been withdrawn from the board?—No; it caused very little feeling indeed.

3381. There was only one banker of importance, I understand, that opposed it?—Only one. And, as a matter of fact, the position was not a right one. They should not have been on the board. After all, the board of directors of the Reserve Bank is supposed to look after the business of the Reserve Bank primarily.
3382. One would think, on the surface, that representatives of the two banks, which are practically the sole banks doing a substantial business in the country, being on the board might be a handicap in many ways to discussions in the board?—Exactly, that was what was found. That was exactly what was experienced. And if you are tending in the direction of thinking over the desirability of extending the operations of the Reserve Bank now to a very much wider sphere than it occupied in the past, and at present all I have to say is I should be very strongly in favour of it.

3383. Let us come back a little more specifically to the first question: What do you conceive to be the proper functions that a reserve bank in a country like South Africa should perform?—Broadly speaking, our idea has been, and I think it quite a sound one, that it should more or less perform the functions undertaken by the Bank of England. It should have, as far as possible, a controlling influence.

3384. A controlling influence upon what?—A controlling influence over the banks of the country in regard to rates.

3385. Am I correct in saying that you mean that the bank is primarily a representative of the general public, and that in the interest of the public welfare it should so function as to conserve the money market here, maintain the standard of the currency that is adopted, and assure to the public reasonableness in matters of discount rates, exchange rates, and so on?—Quite right. You have put it admirably. It should represent the public policy in finance.

3386. It should be operated primarily with reference to the broad public welfare?—Yes.

3387. And not with reference to profits?—No, not entirely. You must remember the Reserve Bank is owned by its stockholders.

3388. (Mr. Middleton.) The dividend is limited?—But still there is stockholding.

3389. (Professor Kemmerer.) But the banks are no longer required to invest any part of their capital in the stock of the Reserve Bank?—No.

3390. (Dr. Vissering.) Do they still hold stock?—Yes.

3391. (Professor Kemmerer.) That is their option, though?—That is their option. I don't know whether their stockholding is still substantial.

3392. (Mr. Middleton.) I fancy it is. I doubt if the Standard Bank has sold any?—I don't think they have.

3393. (Dr. Vissering.) As stockholders they can have no control in the management of the Bank?—No. Their voting power is limited by the terms of the Act.

3394. (Professor Kemmerer.) If such a bank is to continue to exist and to perform its functions, it must earn enough to pay its expenses, and, in addition, it should earn enough to give a reasonable return to the stockholders on the money they have invested?—Certainly. Whilst profit should not be its primary object in a sense, in my humble opinion it would not fulfil its functions if it did not make profits.

3395. Reasonable profits?—Reasonable profits. I mean no organization is worth anything that doesn't make profits.

3396. If it couldn't pay its overhead and yield a rate of return commensurate with other equally safe and secure investments, the stockholders would lose a considerable part of the money they have put in and the bank would, in time, cease to function properly, unless the Government should come in and provide the funds?—Neither would it have that position of authority which it ought to have.

3397. I take it from what you say, then, that you think the Bank should take a considerably more active part than it has in the past in open market operations; that is, in dealing directly with the public in high-grade paper somewhat along the line of the type of the dealings that the Bank of England carries on with the public?—Yes, I am of that opinion.
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3398. It should not be exclusively a bankers' bank, although it should be in part a bankers' bank?—I want to make it quite clear that that is my idea of what the policy of the bank should be, but as to the past few years that we have gone through, I was in equally cordial agreement, we couldn't do all we wanted to do then.

3399. Why not?—Because we couldn't come into active competition with the two banks at first.

3400. The past few years have been, in the main, a period of deflation in this country, have they not?—Yes, in the main.

3401. That means that the tendency has been to contract credits rather than to expand them?—Clearly.

3402. And for the Bank to come into the open market under such circumstances and underbid the other banks would mean that it would be taking a position rather favourable to expansion at a time when contraction was the proper policy?—Yes, it would not have been the proper policy to follow just then.

3403. But this country, now, according to most of the evidence we have, has been pretty thoroughly deflated. Your currency, as measured by exchange rates, is practically at parity with gold?—Very nearly.

3404. Your price level, which measures the value of your currency, its purchasing power, is to-day lower than the price level of any other important country in the world relative to 1913?—Quite right. Our price level is very satisfactory.

3405. So all the evidence is that you have pretty thoroughly deflated, and there is not much reason under normal conditions for further deflation?—No, I quite agree with that.

3406. Then the situation that justified this position of inactivity on the part of the Reserve Bank, in your judgment, during the last few years, would seem to have largely passed?—That is so.

3407. And the time, then, has arrived in which the Bank very properly should come out in the open market and operate more vigorously with the public?—Undoubtedly, to the benefit of everybody in the country.

3408. When you speak of coming out into the open market and operating more vigorously than in the past, what sort of operations in the open market do you have in mind, particularly?—As to exactly how far we should go, and what kind of business we should cater for more particularly, that would require a little thinking over. After all, you must remember that both banks are established by means of numerous branches all over the country. I don't think we, as a reserve bank, would want to go as far as that.

3409. Don't you think the Reserve Bank, in order to perform the functions that you say are proper for it to perform, should fairly promptly begin the establishment of branches in most of the principal cities?—Most decidedly in the principal places. But I don't think we should extend our ramifications to the extent that the other banks have done.

3410. You think you should have branches in the principal cities?—Yes, Capetown, Durban, and all the principal places, of course, where we ought to be able to get a certain amount of really good business.

3411. (Mr. Middleton.) About a dozen of the principal points in the Union?—Yes, I daresay it would be about a dozen.

3412. Johannesburg, Durban, Capetown, Port Elizabeth, East London, Kimberley, Bloemfontein, Maritzburg, and perhaps a few other places?—Yes.

3413. (Professor Kemmerer.) In extending its operations with the public, the Bank should limit itself to loans and discounts of high-grade, short-time, self-liquidating commercial paper?—How that idea is to be done is a little difficult to determine. I am certainly of opinion that the bank should, as far as possible here, do the very best class of business.

3414. It should take the cream of the business?—If it could get it, certainly.
3415. The attitude of the other banks toward competition of that kind is not likely to be very favourable, is it?—No. There is bound to be competition to get that business, and a very good thing, too.

3416. (Mr. Middleton.) Your rates would have to be very good for this class of paper?—Of course.

3417. (Professor Kemmerer.) In order to get that business, it would be necessary to compete directly with the other banks, and in doing so to reduce rates of discount probably below those of the other banks, and to force a narrower margin between buying and selling rates of exchange?—Quite so; we should have to come down to a competitive basis.

3418. But such competition, in your judgment, I take it, should be primarily with reference to public service and not with reference to the making of profits?—It should have primary reference to public policy.

3419. Do you have in mind any amendments that ought to be made to the Reserve Bank Act in order to enable it to function more satisfactorily along the lines you are recommending?—Well, I am not prepared to state offhand the exact amendments that may be required in that regard. The primary one that strikes one in thinking over the Act is the limitation in regard to the acceptance of moneys on fixed deposit; but there are others that may require alteration.

3420. Does the Bank of England pay interest on any deposits?—I couldn't tell you.

3421. Our Federal Reserve Banks in America are not permitted to pay interest on deposits. The Netherlands Bank is not. I think it is rather uncommon for a central bank to have that right. (Dr. Vissering.) It is not prohibited, but the Netherlands Bank does not do it.

3422. (Professor Kemmerer.) It is absolutely prohibited in America. One difficulty in paying interest on deposits is that if you do so, you are under obligation to invest the proceeds of those deposits at a sufficiently high rate of return to meet the interest charges, and this often means that you can't invest them in such a form as to keep the bank thoroughly liquid?—I understand that. I quite appreciate that.

3423. It has been suggested in certain circles that it would be desirable to authorize the Bank to lend money on the collateral security of produce in warehouses, secured by warehouse certificates, and so on, up to a reasonable percentage of the market value of that produce?—That would be in the same way that the ordinary banks do to-day.

3424. Yes. I believe it doesn't make such loans at the present time. And I think the point has been made that it hasn't the legal right to do so, which I should have thought it had. But I accept that for the time being. Of course, there is a risk in loans on the security of produce that is unsold, whose price may decline greatly before the sale is made?—Clearly.

3425. But if the margin were sufficiently large, and the loans were only made on highly marketable types of produce, the risk could be reduced to a very small figure?—Yes; it has been done for years.

3426. They tell us that in this country there are not very large amounts of high-grade short-time trade bills, and that there has been an endeavour made to extend the use of such paper; but that the success of the endeavour has not been very great up to the present time. Such a privilege of lending directly on the security of produce in warehouses might extend the opportunities for the Reserve Bank to function directly with the public more quickly than would otherwise be the case?—Certainly.

3427. (Dr. Vissering.) Is there not a legal difficulty in lending money on collateral on the warrants of the warehouses?

(Mr. Middleton.) There is a legal difficulty. We should have to pass a Warehouse Act. Our law does not recognize warehouse warrants as negotiable documents of title.
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3428. (Professor Kemmerer.) If it were thought desirable to do so here, an Act of that kind could be passed?—Yes.

3429. You would have to pass an Act bringing in the system of warehouse receipts?—A bill was drafted four years ago but it never got further than the drafting stage. Last year certain amendments to the Land Bank Act were proposed which, had they been passed would have placed the Land Bank in a more favour­able position than any of the other banks as regards lending money on the produce stored or held by co-operative agricultural societies.

3430. (Professor Kemmerer.) There has been considerable com­plaint before this Commission, that the spread between the buying rate and selling rate of exchange of the banks in South Africa has been unduly large, and should be reduced. And it has been argued that one of the best services to the public that the Reserve Bank could perform would be to come into the market very soon and force a narrowing of that margin. Have you any judgment on that?—Yes, I quite agree with that. On the other hand taking it "by and large" for a period of years the spread has not been, in my humble opinion, excessive. At times, particularly some years ago, when there was competition among the banks, the spread would be a little large now and again, but not invariably so, not regularly so.

3431. We are speaking of the spread now, of the margin between the buying and selling rate. The spread now, I believe, between buying and selling rates is seven-eighths, and it has been that for some time?—Yes.

3432. The point was made at the Imperial Economic Conference that the margin was wider in South Africa than in any other important part of the Empire, except Australia?—Yes.

3433. We have in mind particularly the present situation, not what happened some years ago; and the question is whether that margin is not now too large, and whether it would not be a proper function for the Reserve Bank to perform in carrying out its duties to the public to step in and force gradually a narrowing of that margin?—Yes, I think it would be. I was present at the Imperial Economic Conference. I remember the Australian difference was more than ours; it was a fraction more.

3434. (Mr. Middleton.) It then was 1½ per cent., against our 1 per cent?—I think it was. I know it was very high.

3435. (Dr. Vissering.) We have been told from several sides that the agricultural people cannot get sufficient credit in this country: that they are obliged to go to the commercial banks, but the commercial banks cannot give them long-term credit, and as regards short-term credits, they are often called up by the banks at times which are very inconvenient to the farmers. And for these reasons it has been advocated that the Reserve Bank should step in and give more credits. What is your opinion about that?—I should advise you to examine that position very carefully before you arrive at any conclusion about it. The farmer, as a rule, gets a great many advances and a great deal of indulgence generally from the banks. They advance freely to farmers, but they cannot advance when the security is not sufficient. I don't believe that any farmer goes short of money here who can put up even a reasonable amount of security.

3436. The Land Bank gives long credits?—The Land Bank gives long credits. It was especially provided to meet the wants of the farmers.

3437. Do you think it advisable to develop the Land Bank still further in that direction? Are you in favour of a system under which the Land Bank could fall back upon the Reserve Bank?—The Land Bank, in my humble opinion, has been very well conducted up to now. They have been very careful, and the losses have not been at all heavy; in fact, they have been very reasonable indeed. It has been well done. I should not propose any altera­tion being made in the Land Bank.
3438. But what is your opinion about the further development of the Land Bank?—You mean to suggest that there are people farming to-day who have a perfect right to get advances and cannot get them?
3439. Yes. We have been told so?—That is not the position, I can assure you.
3440. (Professor Kemmerer.) We had a situation in the United States of this type recently: The commercial banks could only lend for short periods. The land banks, of which we had a number, would lend primarily for long periods. But then there was a considerable group of farmers and cattle raisers and so on that wanted what we call in America "intermediate credit." Six months was not enough, a number of years was too much. They wanted credit for periods, we'll say, of six months to two years. Perhaps they were fattening cattle for the market, or perhaps it was some particular agricultural product they wanted to finance which would take about a year's time to prepare for market. And so there was established in America a group of agricultural banks of the intermediate character. The question we would like to raise is, is there any need for such credit in this country? And if there is, how is that need being met at the present time?—Personally speaking, I don't think there is any need for such special arrangements.
3441. (Professor Kemmerer.) A farmer whose credit is good and who really needs money for 8 or 9 months or a year could get it in an open account?—He gets it as easily as possible.
3442. Do you know if the Land Bank will lend money on short maturities, as short as 9 months or a year?—On bills?
3443. Yes?—I am not conversant with the exact procedure of the Land Bank. I couldn't tell you. But coming back to this other question: I think if you had representatives of the other banks before you and asked them whether they do not do a considerable business in overdrafts with farmers, they would tell you what their advances are. You would find that they do.
3444. That brings up the whole question of the overdraft and the open account method of doing business, as compared with the use of bills. The Reserve Bank performs some of its more important functions through rediscounting?—Yes.
3446. You can rediscount a promissory note or a bill, but you can't very well rediscount an open account?—Of course you can't.
3448. How is that situation to be met?—That is a difficulty to-day. The quantity of bills in the country is not as big as it ought to be. On the other hand it is a mistake to assume that the commercial position to-day is the same as it was a good many years ago.
3449. Just develop that point?—Yes. South Africa is a peculiar country in a way. It has only developed in the last hundred years to any extent. In the very beginning of things the merchant at the port was the financier, so to speak. He was the bank. My old firm, Mosenthal's, issued notes.
3450. Which circulated as money?—Yes, certainly.
3451. When did you do that?—I think it was 1857.
3452. (Professor Kemmerer.) You have been established as long as that?—Yes.
3453. (Professor Kemmerer.) And they issued notes?—Yes, I have got some of them. I didn't think of bringing them with me for you to look at. They are quite interesting. That was long
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before the existence of the Standard Bank and still longer before
the National Bank. And, as a matter of fact, those notes were
current all over the Cape Colony. There was only Cape Colony
then. And when the Standard Bank came along those notes were
withdrawn. And I say, with a very great amount of pride, that
people refused to give those notes up for the new bank notes.
They held the old notes. They had always had all right, and they
stuck to them. And, as a matter of fact, in comparatively recent
years we have had notes brought in to us.

3454. I would like to ask a question on that: Have you any
idea how many notes you had out when the issuing of such notes
was discontinued?—I couldn’t tell you.

3455. I will tell you why I ask the question. We hear it
repeatedly said when the notes of a bank are withdrawn from
circulation that it is likely to be proved that great quantities
have been destroyed or lost, and that the banks or the issuing
authorities make quite considerable profits by reason of these lost
notes. My own observation has been quite the contrary, that
really the last thing people lose permanently is their money, and
when the final wind up comes most of such notes sooner or later
come back. I wanted to know what your experience was in that
regard?—I couldn’t tell you. But generally speaking there were
very few of those notes that were not returned; very few. A
number were returned in halves later.

3456. Had they been circulating a good many years?—Yes, oh
a long time. Sooner or later they came back. Of course when
they were withdrawn one date was first given, and then later
another date, in order to get them all in; and ultimately very
nearly the whole total came back. Now, to move a step further:
The big wholesale houses at the coast were, so to speak, the
capitalists of the country; they were the banks of the country.
They started business by means of supported accounts. Those
accounts were really given to men who perhaps had a little
money, but had nothing like sufficient money to do the business they
wanted. And the wholesale house would enter into an agreement
with them and say: “We’ll give you such and such an amount of
credit. We’ll supply you with goods at current rates. We shall
charge you interest on current account and all that sort of thing,
and you shall buy from us.”

3457. Exclusively?—Exclusively, yes. That was the very begin-
ing of things. And then follow the system a step further. That
man in his turn, I say, financed the farmer.

3458. He gave him a supported account, too?—Not quite in the
same way, but in this way. The farmer came to him and wanted to
buy his household goods and things. The storekeeper said: “All
right, when can you pay me?” The farmer said: “I can’t pay
you until I sell my wool.” So he gave him credit until he could
sell his wool, or his cattle, or his hides.

3459. Did the farmer have to agree practically to sell his wool,
and so on, to this particular merchant?—That was the under-
standing.

3460. At the prices the merchant would himself fix?—No,
market prices would generally govern those transactions.

3461. They were quoted?—Yes, they were quoted then. That
system obtained for a number of years, and then it was obviously
unsuited to modern conditions; and as the years went on it was
broken away from. The farmer got on his feet a little more.
He began to get money together. Instead of sending wool to
somebody in Hopetown, he said: “I will send it to Port Eliza-
beth or London, as the case may be.” And so the old system that
was only suited to very primitive conditions gradually fell away.
And the ordinary system of wholesalers dealing with retailers, and
so forth, took its place.

3462. Don’t you have to-day the supported account?—A little,
only a little. I will give you an illustration of Mosenthal’s busi-
ness here in the Transvaal. In the very beginnings, I say, in the early
nineties, we had very few accounts, and they were mostly supported
accounts, supported to a greater or less degree. When I left the
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business the other day, I suppose we had anything between 3,000 and 4,000 accounts. The huge bulk of them were ordinary turn-over accounts. Some were 60, some were 90, some were 120 days. Some, I quite admit, were longer. Some were almost supported accounts, although it was against our will. You get into an account sometimes that it is difficult to get out of. But we were always against supported accounts.

3463. Would you say the retailer is not to any large extent, certainly not to anything like the extent he used to be, in the control of the wholesaler?—No, he is not to-day.

3464. The wholesaler cannot dictate the terms to him in such a way that he is at the mercy of the wholesaler?—No.

3465. When the wholesaler charges the retailer too large a price, the retailer, you say, is not now so thoroughly tied up with the wholesaler that he cannot shift his business?——Yes, of course he can. It is bound to be so. Put yourself in the position of a retailer who is buying from a man to whom he is tied. He has to meet the competition of the man who buys in the open market. How long is he going to last? He says to the man to whom he is tied: ‘I can’t sell against this man. You must give me a free hand. If I go to the wall, you suffer too.”

3466. This is very interesting and important to us. We have had some evidence of a different character?—Here is something that perhaps might interest you. I may tell you this is a memorandum drawn up by the Associated Chambers of Commerce in South Africa, and sent in as a reply to a certain commission’s report—the Cost of Living Commission’s Report in the year 1919 (Chapter 2: Trade Conditions in South Africa):—“The Commission can scarcely be congratulated upon the endeavour contained in Chapter 2 to describe the trade conditions of South Africa. The position set out in this chapter, and referred to in various parts of the report, to the effect that wholesale houses have such an enormous hold upon the trade of South Africa that—to use the Commission’s own words: ‘the result is that there are many obstacles in the way of open competition’—is so totally contrary to the condition of affairs existing in South Africa to-day as to be grossly misleading. If the object of the Commission had been to describe the condition of affairs that existed approximately fifty years ago, its description would, at any rate, have borne some relation to fact. As is generally known, about fifty or seventy-five years ago, the commerce of South Africa was in its initial stages. The white population was a very small one, chiefly contained in the fringe of country relatively near the coast-line, with few and small isolated settlements up-country. The whole business of the country at that time was done exclusively by coast firms, and one of the earlier methods was by means of supported accounts. The wholesale merchants in those days provided the capital necessary for the development of the country. They then supported men without capital, who, in turn, supported the farmers; and thus the beginnings of something in the way of commercial and agricultural developments were made. As was natural, the system of supported accounts, suited as it was to the needs and conditions of those times, existed for many years, and it is no exaggeration to say that a very material proportion of the present commercial community in South Africa had its origin in supported accounts. Gradually, however, conditions changed. Profits were made by the firms receiving support, and the result was that capital was created, with the consequence that there was a distribution of trade amongst a larger number of the population. Contingent upon this, competition became keener, both in the wholesale and retail trades. As the country developed, the old system was superseded by more up-to-date methods, which were adapted to the changed conditions. It may be stated fairly that at about the end of the Anglo-Boer War the era of supported accounts was well-nigh finished. The continually growing number of wholesale houses became less and less anxious to increase the proportion of their business done in the open market on a competitive basis with people
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who were free to buy from whatever source they pleased. As years went on, this tendency steadily grew and increased, and to-day the number of supported accounts on any ordinary wholesale merchant's books is, in the great majority of cases, limited to a few, and these are relics of old times; so much so, that in many instances the wholesale merchants would willingly be without them. The committee has made the most careful inquiries in regard to this important aspect of the Commission's report. It has inquired from all the principal sources from which such information can be obtained, and it has found that for years past the policy of the wholesale merchants in South Africa has been to cultivate the open trade, and to eliminate, as being unprofitable and unsuited to modern conditions, the whole system of supported accounts. The consequence is that whereas in the past the merchant found himself with tens or perhaps hundreds of supported or semi-supported accounts, he now finds himself with hundreds or thousands, as the case may be, of unsupported accounts, and he does an even larger business than ever he has done before. So much is this the position to-day, and inasmuch as the Commission has failed entirely to appreciate this and realize its bearing upon the commerce of South Africa, so the basis of many of its deductions in regard to the wholesale trade completely falls away.

3467. (Professor Kemmerer.) I take it from what you say that there is at the present time fairly keen competition among wholesale for the retail trade and among retailers for the public's trade?—Very keen indeed. You take Market Street, Johannesburg. Market Street is a street almost entirely composed of wholesale merchants. The great majority of these wholesale people are not very big people; they are not people with money enough to do a supported account business. There is tremendous keen competition among them, and they have very few, and very probably nothing whatever to do with, supported accounts.

3468. One or two persons before this Commission have urged this point. They have said that the retailer is thoroughly in the hands of the wholesaler because of supported accounts; and that, therefore, when the wholesaler receives any benefit through the discount on South African exchange he takes that all himself, and that competition does not force him to pass any of it on to the retailer, because the retailer is at his mercy?—Would you like me to deal with that?

3469. Yes, we would like your judgment on that?—To start with, we agree that a merchant's is not a philanthropic institution. He makes all he can. This is how it works. With regard to the fluctuations of exchange, particularly with mining supplies, the effect of those fluctuations is felt instantaneous. Take a great many of the staple lines in mining supplies: they are supplied to the mines by the merchants here, or agents here representing the manufacturers, at a very fine basis of profit indeed. I know it well. I speak from absolute personal knowledge and experience. Now, say a mining house calls for tenders for, say, 250 bottles of mercury a month for the next 6 months. I may be holding mercury in considerable stocks, but what do I tender on? I have to tender, not because I like to, on the replacement value of that mercury (although it may be lower than my stock) because I know perfectly well that Mr. X.Y.Z., who has not any stock at all, may cable just as easily as I can, and he will quote on the replacement value. If there is any question or difficulty at all in regard to the exchange, what will be done is this (I have often done it): I say, "Very well, let any variation in the exchange from a given point be for or against the buyer's account, debit or credit, whichever it may be."

3470. Just how do you mean?—Supposing, for argument's sake, the exchange is in my favour now, I give him, that benefit; I give the buyer that benefit. If it turns against me, the buyer must pay for it.
3471. And if you do not give the buyer the benefit, your competitor is likely to do so?—Quite so, my competitor may do it.

3472. With mining supplies you say, any benefits from exchange are passed on instantly?—It takes effect on all the big staple lines instantly, or so nearly instantly as the conditions of the particular line may demand. But competition is extraordinarily keen with all those things. Now, the total supplies to the mines are about 12 millions a year. That is a very big item.

3473. When prices are falling, the tendency would be for the mines to live from hand to mouth, as it were?—Yes, they do. The mines are very clever in that way. They buy all their requirements from the merchants. The consequence is the merchants have to carry their stocks, and have to stand the risk of the market, and also of the exchange. Take a thing like grain bags, for instance. We used to do a very large business in them. I have done exchange with grain bags in several different ways. If I had been importing grain bags, and I was afraid of the exchange market, I would indent for, say, "500 bales grain bags at such a price for delivery coast or whatever it might be." I buy exchange to cover that.

3474. Would you buy exchange forward?—I would buy exchange forward.

3475. We have been questioning bankers here and others about that, and they have told us that there is practically no forward business in exchange here, and we have been wondering why there was none?—We used to buy it in Calcutta.

3476. That would not protect you from fluctuations later?—I agree. But it was a great advantage at one time. At any rate, I knew I should not have to pay more than a given price for them.

3477. Is there any reason why the banks here should not do a forward business in exchange for buying and selling exchange as they do in Calcutta, Singapore, and Hong-Kong and other places?—There is no reason, but South Africa has not reached that point yet.

3478. (Dr. Vissering.) If merchants can do that, surely the banks can do it?—Of course.

3479. (Professor Kruger.) The bankers tell us that there is no demand for such forward exchange?—There is no particular demand for it, I quite agree.

3480. Isn't it largely because the public don't realize the advantage of it? If the banks would make an effort to encourage it, wouldn't the public become interested?—Yes, undoubtedly. It all lies in the ordinary development of the financial conditions of the country.

3481. To come back to this competition, you say there is keen competition among wholesalers, so that the benefit of the exchange is passed on quickly to the retailer. We would like to know if there is keen competition among the retailers so that that benefit is passed on to the consumer?—Leaving the mining material aside, because to a very large extent the exchange gets through there very rapidly indeed—the only items of mining material that it does not get through with are the few high profit things: there, it might lag a little. Now, with the supplies of the ordinary individual, with things like groceries, there is tremendous competition. It is a very quick trade. There is a quick turnover all through; both with the wholesaler and with the retailer, you need not fear that there is anything amiss there.

3482. Are the benefits passed on to the consumer very quickly?—Very quickly indeed. But if you take clothing, luxury articles, and all that kind of thing, then the lag is greater, I admit; and it is bound to be greater.

3483. There isn't so much competition?—You can't discover the exchange, for instance, in a suit of clothes.

3484. Because of the different qualities, a lack of standardization?—Quite so.
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3485. But even there, competition must come in sooner or later?—Of course it does. Then you must remember that the man selling goods here, soft goods and the like, is six weeks to two months away from his manufacturer. Therefore he carries a stock rather larger in proportion to his actual requirements than a man, for instance, in a country like the United States or England, where he can lay his hands on the goods at a few minutes' notice.

3486. I have a chart here prepared by the Bureau of Census and Statistics, showing the index numbers of prices in England, the Economist index number, and then the index numbers of prices of goods imported into South Africa. It seems to show that, on the upward movement, they keep together very closely, going up here almost as soon as there. But on the decline, merchants here resist reductions in prices and there is therefore a lag of a few months; but it is practically all taken up in a very short time; this bears out your testimony entirely?—I have not seen that before, but it is absolutely accurate.

3487. Here (illustrating) are the wholesale price movements, and here are the retail, and they show the same kind of correlation; but the retail prices don't go as high when they go up, and perhaps don't come down as low when they come down; but there is the same tendency to follow the movement in Great Britain?—Yes, the same parallel movement.

3488. You said a minute ago that, with regard to these movements, that in the case of such items as clothing and luxuries, there is more of a lag, because the merchants can retain those profits more readily, because they are not standardized articles, and because it is difficult for the public to make comparisons. If that is true, would you have that lag on the upward movement? The merchant knows exactly when prices go up?—No. I will tell you exactly the general practice when shipments arrive. I am talking of soft goods and luxury articles. Those things are costed and the cost price given to the departmental man. The departmental man puts his price on them, and they are seldom re-marked. Supposing next week some more goods come in, higher, they are marked also higher.

3489. But the others are left?—The others are left.

3490. It is possible that you might be selling articles at one time to the retail trade at a lower price than you were paying in buying for the replenishment of stock?—Well, the stock turns over rather quickly.

3491. That would mean then, that on the upward movement, the retailer would benefit and the consumer would benefit, and on the downward movement both the retailer would suffer and the consumer would suffer, because they would be buying these articles at higher prices than the current rate?—A little. Your graph expresses the position.

3492. The response of luxury articles and soft goods on the decline is much slower than that of mining supplies and other kinds of goods?—They are in a different picture altogether.

3493. That has a significance in another connexion. We had a gentleman here before this Commission in Johannesburg a few days ago, representing labour. He said that in a number of the adjustments that had been made of wages, the cost of living had been taken into account, but that in that connexion they had only used food, fuel, light, and rent; that the labouring people had urged that sundries, including clothing, boots and shoes, soft goods, and luxuries, should also be included, but they had not been included. Now, according to your testimony, it is just those articles during a period of deflation that lag most in the decline, and therefore, although labour might benefit by the exclusion of such articles during a period of inflation, labour would suffer by their exclusion during a period of deflation?—As a matter of fact, that is not quite a correct deduction for them to make. I will tell you why. One of the reasons for the omission
of those articles was this: An artisan's family, say, spends £4 or £3 on clothing per month, or whatever it is. They don't necessarily buy the same clothes when prices have gone up that they did.

3494. If they don't buy as good clothes, they are suffering in quality, and after all, that is equivalent to a suffering in price?—No, not at all. You may pay the same price for things which may be slightly inferior, but which may last just as long.

3495. You prefer the other goods, but you are forced by competition to take what appears to you to be an inferior article?—There is a lot of difference to be taken into consideration. You know, as well as I do, that the figures of the cost of living don't represent the position with absolute accuracy. You can't get them to.

3496. While you don't get them perfectly, when you compute them as the Government does here for frequent intervals and obtain the data from a very large number of merchants in a number of cities in different parts of the country, and when you take large numbers of articles and combine them so that little eccentricities here and there are ironed out; on the average you get a pretty fair picture; and as near as I can make out your statistical service here, for a country in the stage of development in which South Africa is, is excellent.—I am very glad to hear you say that. It is excellent. Following up this line of conversation, you know, if you would like to see the actual profit made by wholesale and retail people in regard to various classes of goods, you could get that from the Cost of Living Report.

3497. We must get a copy of that report. I don't think we have one. You think the ratios of profits are about the same now as at the time of that report?—They are not higher; lower if anything. The competition to-day amongst the wholesale people is very keen. It is severe. There is nobody doing well.

3498. With the retailers also?—Not so much.

3499. This seems to be a country with a great number of retailers.—During the boom years a large number of small wholesale started. They were not all people without money or resources. A great many of them still survive. They have gone through bad times, but they are only surviving by selling very cheaply indeed. And the consequence is that for the wholesale trade of Johannesburg, although I believe they are doing in the bulk a very satisfactory grand total, nobody is making any money out of it.

3500. The competition is too keen?—The competition is too keen. That is the position.

3501. You think that is not true among retailers?—It is true among retailers also. Large numbers of retailers started, but it isn't true to quite the same degree.

3502. (Dr. Vissering.) You speak of Johannesburg with regard to competition. What is the position in the country?—The competition in the country, particularly in the Transvaal, is very keen indeed. The trading community to-day in the Transvaal is not making as much as it ought to, in my opinion. The competition is very keen.

3503. (Professor Kemmerer.) There are just two or three other things I would like to touch upon. The suggestion has been made that it would help the Reserve Bank to perform its proper services to the public, and would widen its field of possible operations if the Bank should rediscount directly for the Land Bank, or make advances directly to the Land Bank on the security of short-time paper, which the Land Bank held collateralized, we'll say, by good marketable produce?—Warehouse receipts?

3504. Yes. At the present time, as we understand it, the Reserve Bank does not deal directly with the Land Bank, but will only take such paper, if it takes it at all, through the commercial banks. This proposition is to advance directly to the Land Bank, but only against reasonably short-time paper collateralized by standard produce taken for values with margin adequate to protect
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the Bank against any fluctuations during the period of the loan. What is your judgment on that?—Well, I don't say that that could not be done.

3505. Do you see any objection to it?—We should have the Land Bank behind us, of course. We should have the Land Bank in between us and the maker of the bill.

3506. You would be the maker of the bill. The security would be warehouse receipts, and the endorsement that of the Land Bank. (Mr. Middleton.) It would be one-name paper. You would have the Land Bank and the produce.

3507. (Professor Kemmerer.) In one case it would be a rediscount for the Land Bank paper; in the other case it might be a direct loan to the Land Bank of six months' maturity, or less, collateralized by this produce taken at a fair market price with an adequate margin. In that case it would be one-name paper, but with adequate collateral security?—I should prefer the two-name paper.

3508. I think any one would. But here the field of operations for the Reserve Bank is stated to be so limited that it might be argued that it would be desirable in a country like this to give the Reserve Bank a wider field of operations than in countries where there were bigger fields available for a central bank's operations in the more customary lines?—I would not say that I would be prepared to do it just out of hand. On the other hand, I would not be prepared to say that I would not do it. Farming operations in this country are in a very undeveloped condition, and you would have to exercise considerable care in doing that sort of business.

3509. As I see it, it would not be a question of farming operations, because you would be lending directly to the Land Bank, and only on the collateral security of this high-grade produce?—On the warehouse receipt; I quite agree that would be a strong recommendation in its favour.

3510. The farmer would not come into it directly at all. It would be the Land Bank who would have to look after the farmer?—Yes. I don't say that the business would be impossible at all.

3511. The other point on which we want, very briefly, to get your opinion, is the big question before this Commission, to which all these other questions are incidental or collateral. I am sorry we will not have the time to go into it in detail. The question is, the advisability or inadvisability of South Africa returning to an effective gold standard 1st July next, regardless of what action may be taken in the meantime by Great Britain. Will you give us, very briefly, your judgment on that, and the reasons in support of that judgment?—Well, I think my opinion there is very much the same as a great many others. I want to see South Africa back on the gold standard as soon as ever we can get there. But one has to consider the measure of inconvenience that we may have to suffer; and that is the difficult point, in my opinion, to determine. We are in a peculiar position here in some respects. Before very long, it should pay the mines either to have their gold minted here, or to sell their gold to the banks. Directly they do that, they will alter the present position of imports and exports. They will, thereby, tend to diminish the balances in London very rapidly, of course.

3512. You will export the same amount of gold, will you not?—Then we shall have to, very naturally, export gold to make up the balance.

3513. You only keep as much gold in South Africa now as you need for currency purposes, and you will only keep as much then as you will need for currency purposes?—Quite.

3514. You are practically at parity now, and the Reserve Bank is keeping very large gold reserves, presumably enough for maintaining parity right from the beginning. So I don't see that the situation in that regard would be changed?—No, I don't think it would. My whole point is, I don't think there would be any difficulty created in that regard. But the difficulty that I can't get over is, how you are going to prevent the withdrawal of gold.
3515. You don’t want to, do you? This country, which is exporting something like £40,000,000 of gold a year, wants to have as much gold demanded on the open market as possible, does it not?—You mean to say, therefore, that we need not fear?

3516. I am raising that question with you. I don’t see yet why you need to fear?—I will tell you what the reason of a great many men is based upon. Four years ago, or a little more, when the exchange on London fluctuated very heavily and we had a heavy discount, 7½ per cent., a great deal of money left and was transferred to London.

3517. That point has been raised again and again, but we find the evidence rather conflicting on that. When one asks what is the proof that a great deal of money left and was transferred to London, the facts that are submitted seem to be more or less dubious. One line of reasoning that has been advanced is to show that during that time there was a very great decline in bank deposits and in bank assets here; a very substantial decline?—As a result of the transfer, you mean?

3518. So it is claimed. But, if you will look at the figures, you will find that there was at that time a very great appreciation in the value of gold the world over, and a great appreciation in the value of the South African pound; and if you interpret those figures in terms of purchasing power values, you will find at the end of the time that there was practically as much here as before and that the only decline was a decline that could be explained almost entirely through the change in the value of the unit?—Well, the position was, I think, this, too. Just about the time when that very high rate came into operation, the deposits here were very heavy. It was just after a period of good business. The deposits, both fixed and current, I think I am right in saying, were heavy. That would undoubtedly facilitate the transfer.

3519. Then another thing. For some time before that, you had been exporting very heavily?—Clearly.

3520. And you had been having serious difficulty in getting your imports. You would be ordering, perhaps, two to three times as much as you wanted, because of the delays in having your orders fulfilled. Then the slump came in prices, and all countries were glad to give you those imports at the prices at which you originally ordered them, and so South Africa was flooded with imports. But the world did not want to buy your exports. The exchange was favourable, and you had this temporary excess of imports to pay for over a few months?—That came afterwards.

3521. The latter part of 1920?—The 7½ per cent. discount was in May and part of June, 1920.

3522. Here you have it [illustrating]. In paying for this heavy excess of imports, funds would go out. But if people sent out money as a speculation at that time, they took a big chance that sterling might go the other way, and that they might lose on the speculation, did they not?—Yes, of course, clearly.

3523. If you take the figures of the exchange rates over recent years, you find that the chances of catching it on the decline are about as big as of catching it on the rise. It was a real gamble?—I knew a man who in 1920 transmitted £5,000 and made £350 on the deal, and brought it back again the next year, in June or July, and made 2 per cent. again.

3524. Now the cross-rate is pretty near parity, and your South African pound is worth from 3 to 3½ per cent. more than sterling?—Yes. If sterling keeps going up between now and 1st July, and stays up, there is nothing to be gained from that transfer?—No.

3525. If it turns around and goes down, it is because England is unable or unwilling to maintain parity. One would naturally say, in view of the declines you had in sterling in 1919, 1920, 1921, and the big decline in 1923, that any one who tried to transfer South African pounds to sterling to make a speculative gain on the rise at the time when England could not maintain parity and was going down, was going into a rather dangerous
speculation?—I agree that it might be so stated. Personally speaking, I don't see much fear of heavy transfers; but the fear has been advanced.

3527. Then that argument that this country is likely to be denuded of its gold through a great exportation of gold, because at the time of the world collapse in 1920 there were considerable transfers, does not appeal to you as a very strong argument?—It does not appeal to me as a very strong argument. And I will tell you this: I go further: I say it is worth a sacrifice of some sort to get back to gold.

3528. It is worth a sacrifice?—It is worth a sacrifice. Our position, I believe, would be enormously stronger if we could get back to gold.

3529. All things considered, your general position would be stronger?—Our general position would be stronger. But I admit I would prefer to go back in company with sterling.

3530. Nobody denies that. If sterling stays where it is, and you stay where you are, you are at gold parity, and it is only a question of clinching it?—That's all.

3531. If sterling keeps advancing toward parity at the rate it has been advancing the last twelve months, or at even half that rate, you are back at parity, and it is only a question of clinching it?—That's all.

3532. If sterling turns around and goes down, and you follow it down, and have to go through a long period of inflation with all its evil consequences, and then, having reached bottom, wherever that may be, and you have to turn around and deflate with all its evil consequences, you are paying a pretty big price for stability with sterling, and you are getting instability in everything else?—That is so.

3533. Is the game worth the candle?—That is what we have asked you two gentlemen to come here and tell us.

3534. Do you think it is? What is your judgment? Do you think now, when you are at parity, you should clinch it and stick there?—If you could say to me that here, within such and such a time, let it be six, nine, or twelve months, sterling will come back to par, then I say, don't do anything; let us stay with sterling.

3535. We can't tell you that. If sterling is coming back to par in that time, it presumably will not be able to decline very much between now and then?—No, it cannot.

3536. And inasmuch as you are about 3 to 3½ per cent. above sterling, if sterling stays anywhere near where it is now, you are all right, and you might as well clinch it?—Yes. The arguments are very strong, there is no doubt about it.

3537. If this country is coming back to gold parity, and is to clinch gold parity 1st July next, don't you think it is highly desirable that a decision should be made promptly, and that the public should be informed to that effect?—There is no doubt about that. The longer the notice you give them the better.

3538. If that is true, then you cannot wait for six months to see what is going to happen to sterling. We must take a certain amount of responsibility, and the Government must announce to the country what it is going to do; and if it makes that announcement, it must stick by it. Isn't that true?—If you make an announcement you must stick to it.

3539. And your decision should be announced very promptly?—As to the advisability of doing that, there is no question whatever. But there is the greatest possible difficulty in arriving at a decision. We are so closely linked with sterling, the huge bulk of our trade is done through sterling. It is a matter of the very greatest difficulty.

3540. There would seem to be a declining percentage of your trade done through sterling?—Just recently.

3541. For quite a little period. Here is a table showing the percentage value of the imports into the Union from the United Kingdom from 1910 to 1922 inclusive. I won't bother you by going into all the figures. In 1910 it was 60.8 per cent.; in 1913 it
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was 59.8 per cent.; in 1919, which was the lowest figure, it was 46.9 per cent.; in 1922, it was 56.4 per cent. The percentage of value of imports into the Union from the United States, which was the one gold country, I think, with which you had considerable dealings, increased from 8.9 per cent. in 1913 to 14.4 per cent. in 1921, and then it dropped to 11.3 per cent. Taking the percentage value of exports from the Union into the United Kingdom, we find that in 1910 it was 88.6 per cent.; in 1915, practically 81 per cent.; in 1922, it was 73 per cent. So there is a very substantial decline there; and in spite of the fact that you have been tied up with sterling right along, and despite the fact that you have had the advantages of Imperial preference duties, the percentage of your total trade which is with Great Britain has been going downwards?—You can't go through a world war without a disturbance of business. For a long time England could not supply us with the things we were ordinarily buying from her.

3542. Here you have had the advantages of being tied up with sterling for most of that time, and yet your percentage of trade with gold-standard countries has increased during that time, and your percentage of trade with England, with which you were tied up, has been declining?—That is so, but you cannot leave out of account the war. Assuming there was no war, the difference would have been very much less.

3543. There has been a decline even since the war?—But hasn't it been ascending in some cases?

3544. The figures don't show that there has apparently been a great advantage in being tied up to sterling?—I don't quite take that view. I take the disturbing effect of the war as discounting that very heavily indeed. There was any quantity of goods that we ordinarily bought from the United Kingdom that we couldn't get. We bought them in America; we even bought from Japan.

3545. Your two principal exports in this country I understand are gold and diamonds?—Clearly.

3546. I have gone over the figures for recent years, and find that, since 1910 of your total visible exports about 65 per cent. consisted of gold and diamonds?—Yes, of course.

3547. The price of any commodity is determined, is it not, by the supply of that commodity thrown on the market in terms of the demand for that commodity?—To a point, of course; not quite the same with gold.

3548. Even here it is a question of demand and supply, isn't it?—Yes.

3549. The final consumer, the person that really takes the goods and holds them, or uses them, is the fellow that really determines what the ultimate price will be that is shifted back finally to the producer?—Yes, clearly.

3550. The figures that we have, seem to show that for a considerable period of years practically all of your gold has ultimately gone to America, excepting now that there is a considerable quantity going to India; and that probably two-thirds of your diamonds have gone to America?—I should doubt that, but still, it is quite probable.

3551. So even if you sell them to England, England sends them on to the United States?—Very likely.

3552. And she receives her profit or her commissions for acting as intermediary?—Yes.

3553. But in any case there is an unstable exchange involved in those export operations. If you have stability with London, and London passes these commodities on to America for you, London has an unstable exchange with America?—You must remember this; London does not necessarily pass a thing like diamonds on in the same condition in which she buys from us. She sends them on to America as finished stones, which is quite a different thing.
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3554. Granted that, but the price of diamonds is largely a question of the supply you put on the market. And the Diamond Syndicate controls pretty well the amounts put on the market, and takes extreme care not to spoil the market. And the ultimate price is determined, to a great extent, in the American market, which is a gold standard country, is it not?—It is largely determined in proportion to the volume of stones.

3555. Sterling may stay where it is, or rise—we expect it will—but if it doesn't, and if it turns around and goes down, should this country say, “We are going to link up with sterling and follow it wherever it goes”; or should this country take the chance and say, “We are at gold parity: we are going to clinch it.” If sterling does not stay up it will have to go its own course?—Isn't there something to be said for a sort of middle course that will enable you to take whatever action you like?

3556. We would like to know what middle course would be more practicable? The law on the statute book now says you must go back to gold 1st July. Unless that law is changed, you must go back. An announcement must be made promptly as to what you have to do. There is a very good prospect that sterling will get back to parity in the near future. There is a possibility in the other direction. If you are to make your decision now, you must take your chance?—Assume for the moment that sterling goes down: Provided we say we will not follow it downward, what steps have we to take as a result of that decision?

3557. You have very large gold reserves in your bank. Your currency is apparently deflated to gold parity, and probably below gold parity, as nearly as you can judge from your index number. If you could maintain the gold standard before the war, now, with your Reserve Bank and your mint, can't you maintain it now. You have more machinery now than you had before?—We ought to be able to do it?

3558. And, furthermore, there are fewer countries to draw your gold away. There are only one or two countries of importance on the gold standard that would tend to draw your gold away, whereas before nearly the whole world was on the gold standard?—I say the answer to that question is extraordinarily difficult.

3559. But we must answer it?—As I before hinted, that is why we asked you to come here.

3560. We are sending an S.O.S. call out to you for help?—I know that, and I know the difficulties of the position. But I think I will leave it to you. As to the desirability of returning to gold, no one argues the question at all.

3561. A gentleman appeared before us the other day who was very vigorously opposed to returning to the gold standard, yet he said: “I would have no hesitation, and I think practically all we bankers would have no hesitation, in saying we should go to the gold standard 1st July, and stick there, if I was not afraid that we could not maintain it.”?—As I say, that is the real difficulty.

3562. Now, if you were confident, reasonably confident, that you could maintain the gold standard if you once went back to it, would you then say: “We will go back regardless of what happens to sterling”?—There would be that, and also the other condition as to what the measure of inconvenience would be that we should suffer from being on a different standard from sterling.

3563. That is something we have to measure and weigh?—That you have to measure.

3564. The principal inconvenience that has been argued is the inconvenience due to a fluctuating exchange?—Yes.

3565. You said a little while ago that those evils could be eliminated to a considerable extent here, as has been done in Singapore, Hong-Kong, and other places that were on very unstable standards, as far as England was concerned, by forward exchange contracts?—Yes.

3566. If that were done here, those evils could be largely eliminated, could they not?—A good deal, undoubtedly.
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3567. And you would have the advantage of stability of values here if gold remained stable?—There is no doubt about that. The answer to the question you put to me, as I say, I must leave it to you.

3568. What is your judgment concerning the advisability of establishing a State bank here?—No, I am against that sort of thing.

3569. Why?—We don't want anything more State than we have had. We have State railways and two or three other things. We don't want a State bank. That means the introduction of politics, and this country is simply overridden with politics.

3570. If the Reserve Bank is strengthened in its powers, or at least if it comes out more vigorously into the open market, takes a more active part in the financial life of the community, would not that, in itself, meet the difficulties that are supposed to be met by a State bank by those who advocate it?—It undoubtedly would. There is no doubt about that.

3571. If the Reserve Bank does not take a more active part, and just continues to stand more or less aloof, would not that play into the hands of the advocates of the State bank?—There is no real case for a State bank here. The people who want a State bank here want to get credit for nothing. If you have a State bank you will have no end of trouble. You never saw a country in all your life that was so permeated and so overridden and so overdone with politics as South Africa.

3572. You know, I have heard that stated in every country that I have been in?—I am sure that in none of them is it so true as here. We are such a small community. There is only a handful of people in a country the size of Europe.

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3573. (Professor Kemmerer.) What is your present position?—Manager at Capetown of the Transvaal Commercial Bank; but I am not speaking in that capacity, I am only giving my personal views.

3574. How long have you been in the banking business in the Union?—In South Africa I have been for the last year and a half.

3575. And before coming here, where were you?—I have had rather a varied experience. I started banking in Russia. Then I went to India, then into shipping in Australia. Subsequently I returned to banking in Russia until the Bolsheviks finished that.

3576. (Dr. Vissering.) Have you been in the Russian-Asiatic Bank?—It was called the Russo-Chinese Bank at that time.

3577. (Professor Kemmerer.) So you have had an opportunity to observe currency and banking conditions in a number of different countries?—Yes.

3578. The principal problem before this Commission, as you know, is the question of the advisability or inadvisability of South Africa returning to a gold basis 1st July next regardless of what action may be taken by Great Britain. We would like your judgment on that question and the reasons that you may have in support of it?—Well, as I stated in my memorandum, I am in favour of returning to gold under the present circumstances. If the question were asked me six months ago, I would have felt some doubt about it. At that time it seemed doubtful what would happen in Europe. But now the position seems to have become more settled in Europe, and most countries seem to have decided to return to the gold basis.

3579. There has been no general agreement to go back to the gold standard at any particular time. Germany has practically stabilized, although she has not yet committed herself to convertibility. Sweden has returned to a gold basis, with some qualifications. I believe she reserves the right to restrict the importation of gold. And a number of other countries have gone back. The Netherlands is practically at gold parity, but has not committed itself to convertibility yet. France has not returned. Belgium
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has not; Italy has not; Spain has not; a good part of Europe is still on a paper-money basis?—I mean the tendency is that way more than it was, say, six months ago. For that reason, it seems to me that there should be no more reason to hesitate on the part of South Africa, more especially as the peculiar circumstances of this country seem to favour returning to gold.

3580. What are the peculiar circumstances here that are favourable to returning to the gold standard?—Well, chiefly the fact that South Africa is a country with an active trade balance.

3581. What do you mean by "an active trade balance"—A big excess of exports over imports.

3582. That is only visible?—I realize that, but you have the peculiar situation in this country that this excess of exports may be said to consist of gold.

3583. Why shouldn't one say just as well that the excess consisted of mealies or of diamonds, or of anything else? You take your imports, and then add up your exports; in the long run your total exports must pay for your total imports, and any item is the balancing item that you put down last, isn't it?—Yes. But the difference between gold and, say, wool is this: the wool has to be exported, whereas gold, if the exchange is not favourable, can be kept in the country and turned into sovereigns. If you put too many sovereigns in circulation, the exchange would go against you, and you would have to export them, namely, sell them abroad at whatever the market would give you?—Supposing the market is unfavourable to the export of gold, to that extent you could curtail your export of gold by turning the gold into sovereigns.

3585. And then what would be done with the sovereigns?—You would put them into circulation.

3586. You would soon have so much gold in circulation that you would have to export; the excess sovereigns would ultimately have to go out?—What I mean is this: suppose you had an exceptionally big wool clip, then you couldn't help yourself; you would have to export it, even if prices were very bad. Then you might find yourself with a big balance in London, which you would have to bring back again.

3587. I don't want to press the point too much, but I should say that if you want to hold your wool clip back, you could do so at a loss, awaiting your chance for a better market which might come, and which might not. If you want to hold your gold back, to tie it up in the Reserve Bank's vaults here, or to hold it idle in one form or another and lose interest on it, you could do that. But if you want to realize on either, you have to sell them at the market price. I don't see fundamentally where there is much difference between the two, except in this respect: I think there is a very common belief that for some reason or another gold obeys different economic laws, or moves under different economic forces, from other commodities; and that belief often leads to errors in reasoning concerning currency. Now, it seems to me that gold moves for the same reason that any other commodity moves. It moves from the cheaper market to the dearer market, and whenever there is an adequate profit in shipping it; and it stops moving when it is more advantageous to keep it at home. It is a question of international market values. The value of gold is expressed largely in price levels, whereas the value of other things is expressed in prices?—I quite agree with you. But you can't get away from the fact that you can turn gold into money straight away. You have the market for it here or in London, or in New York, or in India, whereas with wool you must export it. You can't turn it into anything here, no matter what the price is, and no matter what the quantity is.

3588. Because you have no textile industries here to use your wool?—Yes. The same with maize. You can't keep it here; you must export.

3589. But in the same way you cannot keep the gold here, unless you bury it in the ground. If you pour too many sovereigns into
the circulation, prices would go up. Sovereigns would be so much less valuable here than abroad that they would be forced out by the law of supply and demand?—You would only keep just as much here as it would pay you to keep.

3500. What advantages do you think South Africa would gain from returning to the gold basis promptly?—It would get a more stable basis for its currency. I realize, of course, that gold itself, being a commodity, is subject to fluctuations in value. But still, assuming, as I said at the outset, that other countries sooner or later will do the same, there can be no harm in South Africa going back to gold first, or at least being a little earlier than the others.

3501. Gold has been fairly stable in value during the last two or three years, has it not?—Yes, more or less.

3502. Taking the value of gold to-day as expressed in the present American price level, it has been fairly stable compared with the 1913 price level?—Yes.

3503. If you compare price levels in other gold-standard countries, I think you will find that during the last two or three years gold has been fairly stable in value, although prior to that it was for some time very unstable?—In terms of British sterling, yes.

3504. The value of gold is determined by world forces of supply and demand, which are difficult for any one group of persons to manipulate successfully very long; whereas, if you have a currency that is not linked up with any metal, the human element comes in much more directly, and the possibilities of manipulation are much greater, are they not?—Yes.

3505. You think that this country would, presumably, have a more stable monetary unit if she would tie up with gold than if she would agree to follow sterling in case sterling should not return to parity in the near future?—Yes, I think so.

3506. Do you think this country would have any difficulty in maintaining the gold standard if it should adopt it 1st July next?—I don't think so.

3507. Did it have any difficulty in maintaining the gold standard before the war?—No, not as far as I know.

3508. Are conditions materially or essentially different now than then?—They are different in one very important point: that is, the public debt of South Africa at that time was very much less. That is, perhaps, the only point which might make one doubt.

3509. The foreign debt is largely in sterling, is it not?—Yes.

3600. If this country ties up with gold and sterling depreciates, and this country pays off that debt during the period of depreciation, it would mean an advantage to South Africa, would it not?—Yes, but I am thinking of the possibility that sterling might go back to parity, and that the South African pound might depreciate. The point I want to make is that really the budget does not sufficiently balance, and the Government has to go into the market now and again to borrow.

3601. That is a possibility that has not been mentioned before to this Commission. I believe people have assumed, apparently, that either this country was going back to the gold standard and that sterling was going back to the gold standard too, or that this country was going to tie up more or less closely with sterling and follow it upwards or downwards. You have mentioned the possibility that if you don't decide to tie up to sterling now, that sterling may return to a gold basis, and that South Africa might not be able to maintain its present exchange rate, and that its pound might decline. Do you think that is at all probable?—I am thinking of the economic position of the country as a whole. While the mines are going on as they are going at present, and while the country is producing, as it is now, as it is now, everything seems to be all right. But it seems a very heavy debt that South Africa has incurred during the war, and there are very heavy charges for interest and so on.

3602. Would there be any disadvantage in this country stabilizing from that point of view? Wouldn't it be an advantage? If
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sterling remains at parity you don't lose; if sterling goes down you gain?—I don't mention it as a reason for not going back to gold, but I say this is one point which is worth consideration, because this is a very heavy charge on the balance of payments of South Africa.

3603. A good share of that debt is supposed to be productive debt, isn't it?—Yes, but there is a pretty heavy unproductive debt.

3604. About a third of it, I think, is unproductive?—About that.

3605. Does your domestic debt situation have any bearing on the subject?—I hardly think so; the local debt is not so very big.

3606. In so far as it was incurred during the paper-money period, when the monetary unit depreciated in value, would not South Africa suffer if it were paid back at gold parity?—Yes, of course it would. But that debt, I don't think, is of very great importance, I can't mention the exact figure.

3607. The country as a whole, however, would not suffer from such an adjustment. If the taxpayer had to pay a more valuable unit, the bondholder would receive a more valuable unit; and both of them are citizens of the country?—That you can't escape, anyhow.

3608. It would hardly be wise for a country to determine its currency policy with a primary object of devaluing a small internal debt—nor ethical either?—Of course not. I am only mentioning this point because in my memorandum I omitted it. I think it deserves consideration—retrenchment and reduction of the foreign debt, rather an important debt.

3609. A country which fails to balance its budget year in and year out must continually borrow more and more, and as it borrows more and more and piles up its public debt, its credit deteriorates, does it not? And sooner or later it reaches the point where it is impossible to borrow at any rates that seem at all within the realm of reason; and, in such a case, countries are quite likely to be forced to the extremity of issuing paper money, which sooner or later breaks down the gold standard?—Yes.

3610. So that a long-continued policy of over-expenditure, of budget deficits, is bound to break down any currency standard you establish. It would break down the gold standard if you established it, or it would break down a managed paper-money standard if you tried to fix the unit at any particular value, would it not, for the same reason?—That is so.

3611. You think it is very important that this country should make strenuous efforts to balance its budget?—Yes, and reduce its foreign debt, if possible, and not to increase it. Of course, it may be necessary to differentiate between unproductive and productive debt. But even the productive foreign debt is, I think, a thing which the Government of the country in present conditions should be very careful with.

3612. Isn't there possibly another side to that question? Here is a new and undeveloped country, rich in natural resources, but poor in capital, with fairly high rates of interest. A considerable part of the world is rich in natural resources, and with much lower rates of interest. Under such circumstances, isn't it both natural and desirable that these older countries should transfer their capital here, and lend their capital here, and that you should continue to receive this capital so long as the rate of return you can realize on that capital is greater than the rate you must pay upon your loans? And would not that point, perhaps, to an increasing indebtedness in this country for a period of time, for productive purposes, until the country was more fully developed, and the interest rate is brought down more closely to the level of the older countries?—Yes, I agree with you, but I think a difference should be made between private capital and Government loans. The private capital brought out here does not involve the credit of the State; and the Government may go in for schemes which certainly are, in a sense, productive, but which may not turn out as well as they expected. Take, for
instance, irrigation works or railways: the Government may go in for very extensive schemes, and borrow big sums of money, and, later, may find that these undertakings don't pay.

Your argument seems to assume, perhaps, bad economic judgment on the part of the Government, or inefficient administration. To the extent that the management of the Government was good, and that the Administration was efficient, would it not be desirable, along the lines I have just mentioned, for the Government to borrow money for productive public works like railroads and irrigation works?—Yes, but if private capital is allowed a greater scope, then private capital takes the risk.

Do you think it more likely that you may get efficient management by private capital, and do you think that the risks are so great at best that it is a better function for private capital to assume than the Government?—Our experience with important public works in the country has not been too good. The same applies, perhaps, to a great many private undertakings. But there, as I say, the credit of the Government is not involved. It seems to me that is a point which is often overlooked in this country.

At any rate, from the standpoint of our particular problem, i.e. the restoration of the gold standard and its maintenance in the future, you consider it very important that the Government should balance its budget and should reduce its public debt at a reasonable rate?—Yes.

Have you any other suggestions to make that you think would be helpful to us with reference to this question of returning to the gold standard?—One of the questions in the questionnaire was whether measures were necessary from now until 30th June. My answer to that was, that taking the present rates, we are practically at gold parity, so that, if everything remains as it is now, there is no need for doing anything special. Of course, there are possibilities of sterling going either down or up. If it goes up, so much the better; we automatically drift into the gold standard. If it goes down, that may lead to some difficulties.

We are confronted with this situation. This Commission must make its report promptly, and it must recommend to the Government whether or not it should return to the gold standard 1st July next. The Government will take up those recommendations for consideration. There seems to be a pretty general expression of opinion—in fact, no one, I believe, has taken a contrary view up to the present time—that whatever action the Government is going to take should be announced to the public, and announced at a very early date, so that the public will know what to count upon, and be able to put their houses in order.

In that case, if South Africa should announce in the course of the next month or so that it will return to gold parity 1st July next, regardless of what action may be taken by Great Britain, then every South African paper pound becomes virtually, in addition to money, a promissory note to pay one sovereign 1st July next on demand; and if its value tended to go below the present discounted value of the right to draw a sovereign six months hence, it would pay people to take sovereigns out of circulation and hold them in advance, because they would make more than the current rate of interest by so doing. Withdrawal for that purpose would contract the currency, and would tend to force the rate up to the discounted value of the right to draw money 1st July, would it not? So, if you make that decision, and the public believe it. it will mean that no matter what happens to sterling, your pound, with minor fluctuations, will move continu-
ally toward parity, and will never be appreciably below the present value of the discounted right to draw a sovereign 1st July, 1925. You may not need any other preparation, because here is an automatic force set in operation that would bring you back continually toward parity?—Until such time as you have made the announcement, there is no saying what it may suit the banks to quote. I agree with you from the moment you make this announcement, I believe the banks themselves would be interested in keeping the rates at such a point that we will remain at gold parity.

3620. So the time of uncertainty is between now and the time the Government makes its announcement, and that is an argument in favour of getting just as prompt a decision as possible?—Yes.

3621. (Dr. Isserlin.) Do you expect the banks will, as soon as possible, adjust their rates to the new situation?—I think so.

3622. You would be willing to adjust them?—They cannot help themselves. They will be compelled to. I don't know whether they will like it. There is no doubt about it, this matter of the balances in London is a very difficult point for the banks. If the fact is put before them that the Government says: "We are going back to gold 1st July next," they simply have to write off whatever loss they make in exchange. Supposing sterling were to drop to-morrow, then the banks will have to consider whether it is worth while to follow sterling again.

3623. (Professor Kemmerer.) You speak of the loss on exchange. If they bring this money back from London—we have had several bankers before us on that particular question, and we have not yet been convinced—we don't just see how these banks are going to make such a loss. According to the evidence we have, these balances have been kept over there in substantial quantities for a long time, and the great bulk of the balances were placed there when the gold value of sterling and also the commodity value of sterling were very much lower than they are to-day. In fact, the gold value of sterling during 1924 has risen something like 10 per cent.?—Yes.

3624. To the extent, then, that these balances have been kept there, just during this year, they have advanced in their value already something like 10 per cent. Sterling for the last three or four years—during most of the time since 1918—has been below 4.70, where it is now. These funds, practically all, apparently, were accumulated over there during times when sterling was below what it is now; so that, if they were accumulated at those values, and are brought back at a rate of 96½, or 95, or 94, the great bulk of them would be brought back at much better values than those at which they were put over there. It seems as if the banks would hardly have much of a kick coming if they should have to take a few points less than parity. As long as the profits are so large, it is not a question of a loss, but a question of a little less profit?—I think the banks look at it this way. They say if, by some means or other, we would encourage imports and discourage exports to such an extent that we could get these balances back here and make an exchange profit on the transfer as compared with the reverse rates, then it would show a profit on the books no matter whether the actual intrinsic value of the balances in London may have increased.

3625. The banks transferred funds over there by buying exporters' bills of one sort and another, and they have been buying those bills at varying rates; and the great bulk of those bills, apparently, have been bought at rates which have cost the banks, in terms of gold, in terms of goods, and in terms of any reasonable test of their value, considerably less than the prices which they would get if they would convert those balances into South African pounds now at a discount of 5 per cent., or anything like 5 per cent.?—I don't think that affects the position of the banks in any way. I admit the intrinsic value of their sterling balances may have increased, but as far as their book profits go, as far as they can show to their shareholders, I don't think it makes any difference.
3626. It makes a lot of difference to the shareholder when he is receiving his dividends, or when he is thinking of his capital, whether those dividends are paid in pounds that have a very high purchasing power, or whether they are paid in pounds that have a very low purchasing power?—That may be so. But it will not be reflected in the bank's profits as revealed in the accounts.

3627. That is a nominal matter. Supposing, for instance, during this time when sterling appreciated, their London balances doubled. This appreciation would not and could not show in any way in the books, which are kept in sterling, and have nothing to do with the London-New York rate. Exchange profits could only be booked on actual transactions.

3628. That is a book-keeping proposition?—That is so. But that is all they can judge their profits by. Supposing they had been buying bills here at a certain rate, and imports lagged behind, they couldn't get that money back. Now, when we come back to the gold standard, and exchange should remain where it is now, the profit which they might have made, if exchange had dropped again owing to the slack season, is wiped out. It is, perhaps, not so much a loss on exchange as a failure to make an expected profit.

3629. That was my point. These balances that they have kept abroad they have kept abroad because they expected to make a better return on them than they would if they had kept them here?—Yes.

3630. To the extent that they were transferred abroad, when the value of the pound was very low, and that they can now be brought back when the value of the pound is very high, the banks will make a very nice gain?—Yes.

3631. (Dr. Vissering.) What do you expect the attitude of the banks will be if there is a tendency for sterling to go down? Would they all bring these balances over as quickly as possible?—It all depends when you are going to make your announcement. We are now in the export season. For that reason alone, I don't think the banks are likely to reduce their rates.

3632. (Professor Kemmerer.) The more they reduce their rates, the more they would encourage imports?—Yes.

3633. If they wanted to bring those funds back, the most natural thing to do would be to reduce their rates?—Yes.

3634. At the present time, the South African pound, as measured by the exchange rate, is, perhaps, 3 odd per cent. more valuable than the British pound?—Yes.

3635. It depends whether you take the buying or selling rate, or the average between the two?—Yes.

3636. But the South African pound to-day, as measured by its purchasing power, assuming the values of 1913 as standard, is more valuable than the British pound by about the ratio of 167 to 133, which is about 25 odd per cent. difference. So, if the exchange rate were put in harmony with the price level, you would have to have a much greater discount than you have now; and it would be a natural thing for economic forces tending to bring about purchasing power parity, to force the rate down until you got equilibrium. Of course, there is always a lag there, often a fairly long lag. But, still, there are strong economic forces that tend to bring the two things together. And you would seem to be very far out of adjustment now in this country; either your price level is altogether too low as compared with 1913, or your exchange rates are altogether too high, or Great Britain's price level is altogether too high, or it is part of the one and part of the other?—Yes, that is so.

3637. The Reserve Bank here was established. I understand, at a time when there were restrictions on the exportation of gold, and its field of operations up to the present time has been entirely during a period in which this country has been off the gold standard. The question, therefore, arises, what functions this bank should properly perform in the future, particularly what functions it should perform in connexion with the return to the gold standard, if the Union should decide to return to the gold standard 1st July next; and what functions it should
perform in the direction of maintaining the gold standard after that date. We would like to get your judgment on these questions?

—Of course, as you say, the Reserve Bank has not so far been called upon to redeem its notes in gold. But it seems to me that, at any rate for the present, the question cannot cause any anxiety, because practically every note is covered by gold.

3638. They have a substantial reserve in the form of gold certificates, and these certificates are covered 100 per cent. by gold?—Yes.

3639. But I understand they don't have anything like a 100 per cent. cover for their notes and deposits combined?—No, that is so.

3640. And their liability to the public, if they return to the gold standard, will be a liability to pay deposits in gold as well as notes in gold?—Yes, that is so. But, of course, their liabilities are liabilities to the other banks.

3641. But they are demand liabilities, payable in gold?—Yes, but the banks have to keep deposits with the Reserve Bank, 10 per cent. of their "demand," and 3 per cent. of their "time" liabilities, so that this amount cannot be called up.

3642. Suppose depositors make calls upon the banks for the cashing of their deposits in gold, the banks, in order to meet those obligations, would have to obtain gold from the Reserve Bank?—Yes.

3643. If, in order to obtain gold from the Reserve Bank, they should be required to reduce their reserve percentages below 10 per cent., what would happen?—I don't think they can do it. As the law stands, they must, under all circumstances, maintain 10 per cent.

3644. A cash reserve, I take it, in any country, is something to be used, and not merely to be looked upon. There is no point in keeping a cash reserve, unless it can be used in times of emergency. And if you are going to go down to that 10 per cent., and then say you cannot go any further, no matter what the emergency is, you have a rather peculiar situation. You have a reserve that cannot be used?—You might have to amend the law.

3645. There is a penalty, as I understand it, for the banks to reduce their reserves below 10 per cent.?—There is a penalty for the banks for having a reserve less than 10 per cent.

3646. As I understand it, a bank may reduce its reserves below 10 per cent. without limit, provided it pays a certain fine or tax on its advances?—Yes, that is so.

3647. Of course, if a bank sees its reserves going down, it has the privilege of rediscounting with the Reserve Bank, and thereby of building up its reserves?—Yes. But what I meant to say was that at the present moment all outstanding Reserve Bank notes are covered, practically speaking, note for note by gold; and if depositors were to call up their deposits with the private banks, the private banks would pay out in notes, and could not be called upon to pay gold.

3648. Is that true?—As I understand it, the notes of the Reserve Bank are legal tender in this country for all payments, except payments by the Reserve Bank itself?—Quite so.

3649. But the Reserve Bank is not required to carry, and I did not understand it was carrying now, 100 per cent. reserve. It may be true that at the present time it has 100 per cent. reserve against notes, if you don't count the legal reserve requirement against deposits?—Yes, that is what I wished to emphasize.

3650. But after all, when you have a bank having demand liabilities in the form of notes and deposits, with the requirement that it must keep a 40 per cent. reserve against both notes and deposits; if, figuring the percentage of reserve which should be figured against notes and deposits combined, you say there is 100 per cent. against notes, then you might not have anything against deposits; or if you say there is 100 per cent. against deposits, you might have little or nothing against notes. But the real basis for comparison is, what percentage do you have against your demand liabilities in the form of both deposits and
notes. Section 19 (2) of the Act provides that before ascertaining the gold reserve against notes allowance shall first be made for deposits—I was only speaking of the present position. You asked what would happen if the Reserve Bank were called upon to pay its notes in gold. I have just stated that at present the Reserve Bank could pay every note in gold.

3651. The reserves can be reduced by payment of a penalty?—Yes.

3652. On the basis of a 40 per cent. reserve, which is the normal legal minimum against notes and deposits, the bank is now in a very strong position, and has something like twice that percentage, has it not?—Yes.

3653. That brings us back to the original question: what do you think are the proper functions that the Reserve Bank should perform in case the country should decide to go back to the gold basis in the near future and resume specie payments?—Well, I take it, their function would be to exercise the right to issue notes within the limits fixed by the Act.

3654. Do you see any other important function for the Reserve Bank to perform?—Not apart from those at present fixed by law.

3655. Not apart from the mere issuing of notes?—Naturally they have to take measures to ensure gold payments at all times.

3656. What sort of measures could they take to do that so that gold payments may be assured?—They have to maintain the minimum gold reserve as fixed, that is, 40 per cent.

3657. Suppose there should be a tendency for gold to go out of the country in undue quantities; suppose the commercial banks should start expanding their loans and deposits to an extent that the Reserve Bank thought was dangerous and threatening to the maintenance of the gold standard, should the Reserve Bank do anything to prevent what it considered to be a dangerous expansion of credit?—I think for that purpose the Reserve Bank should have the right to do exchange business.

3658. It has the right to do exchange business?—It has the right, but it does not exercise it.

3659. Then you believe, under such circumstances, it should exercise that right?—I think so.

3660. And how should it exercise it?—You would have to put the Reserve Bank in a position to do that first. Before it could sell exchange, you would have to make provision to create the necessary balances on the other side.

3661. If gold were going out of the country in undue quantities, it would be because the exchange rate here at what you would call the gold export point?—Yes.

3662. The bank could stop that drain if it would sell sterling at lower rates than the gold export rate?—Yes.

3663. Because a sterling credit for a given sum on the other side would be as valuable to a person as the equivalent in gold to be exported?—Yes.

3664. In that case the Reserve Bank would have to come in and perhaps cut under the market rate and sell drafts at lower rates than the market rates?—Yes.

3665. (Dr. Vissering.) Why is that not done now?—The Reserve Bank has, so far, always refrained from doing it. I don’t know for what reason, but I presume it is that they didn’t want to compete with the other banks.

3666. (Professor Kemmerer.) It couldn’t make its rate effective in a case of that kind, if there were a drain of gold, without coming out into the open market and competing with the other banks?—Naturally.

3667. If the only way to make its rate effective is to compete with the other banks, would you consider it its duty to come out and to so compete?—I think so.

3668. Is there any other way of doing that? How about changes in its discount rate?—Well, I don’t think that will have much effect, because South Africa is too far distant from the money markets of the world.
Mr. Jacques Henri Cohen Stuart.

3669. You think the raising of the discount rate in a case of that kind would be likely to be ineffective because the banks under those circumstances might not be rediscounting with the Reserve Bank at all?—Yes.

3670. Do you think if the Reserve Bank were to push up its discount rate under such circumstances, the public would consider that as a warning of danger, which in itself would tend to restrict the expansion of credit?—It is of course possible, because the other banks, at any rate in so far as they have reason to have recourse to the Reserve Bank for rediscounting, would have to follow suit by putting up their rates also.

3671. To the extent that they had to have recourse by rediscounting. But if they did not need to rediscount, if they were independent?—They could then, of course, remain as they are. But the likelihood is they would follow just the same; for instance, even although not all the banks make use of the facilities of the Reserve Bank, still they have all made their rates in accordance with the rates of the Reserve Bank.

3672. The Reserve Bank lately, I understand, has cut under the rates of the other banks for the discounting of acceptances. The on-themarket rate, I believe, is 5½ per cent., and the other banks' rate is 6 per cent?—I don't know whether they might not be rediscounting and it could only do so by, in some way, coming out into the open market and competing with the other banks?—How can the Reserve Bank compete with the other banks if it puts up its rates?

3673. If the Reserve Bank puts up its rates, and the other banks don't need to rediscount, and don't follow suit, the Reserve Bank might do as is done by central banks in other countries—go out into the open market and sell acceptances or sell short-time Treasury bills or borrow and lock up the funds that it obtained by these operations. This would contract the currency, and reduce the reserves of the other banks, and sooner or later force the other banks to rediscount and to increase their rates. In this country you don't have an open money market like you have in European centres; and I am afraid such measures could not be easily applied here.

3674. At times the Reserve Bank may think one thing, and the other banks may think another. It frequently happens in other countries that the central bank adopts a certain policy to avoid difficulties that they seem to see arising. The other banks differ from the central bank and refuse to follow its example. Then it would be necessary, would it not, for the Reserve Bank, in protecting the public interests, to force upon the public its rates; and it could only do so by, in some way, coming out into the open market and competing with the other banks?—How can the Reserve Bank compete with the other banks if it puts up its rates?

3675. If the Reserve Bank puts up its rates, and the other banks don't need to rediscount, and don't follow suit, the Reserve Bank might do as is done by central banks in other countries—go out into the open market and sell acceptances or sell short-time Treasury bills or borrow and lock up the funds that it obtained by these operations. This would contract the currency, and reduce the reserves of the other banks, and sooner or later force the other banks to rediscount and to increase their rates. In this country you don't have an open money market like you have in European centres; and I am afraid such measures could not be easily applied here.

3676. If a central bank would come into the market in a case of this kind and offer to sell Treasury bills to any one that cared to buy them at very favourable rates, and at increasingly favourable rates until they were taken, the point would be reached sooner or later when people would buy, because it would offer too big a bargain to pass by. That is what is happening in America to some extent now. The reserve banks are depending, not so much on variations of the discount rate to stabilize the currency and protect the money market, and make their expenses, as they are upon buying and selling in the open market. And there is no reason that I can see why the Reserve Bank should not carry in its portfolio at all times substantial quantities of very high grade paper, and why it should not, in times when it was desirable for it to tie up the market, stop a drain of gold, or stop an undue expansion, sell that paper or those securities and make the rates low enough to induce the public to buy?—Well, I rather doubt (perhaps I am not long enough in this country) whether the channels that exist in other countries with bigger money markets, exist here. I believe the Government last year made an experiment in that direction, but for some reason the experiment was not continued.
3677. Are not Treasury bills quoted right along?—There is a very limited market for them.

3678. (Dr. Vissering.) Is there not a kind of money market in Cape Town? Isn't it possible to develop one there?—Money seems to be blocked up in water-tight compartments. It is not liquid. There are no money brokers.

3679. (Professor Kemmerer.) Wouldn't it be desirable to develop such a money market?—It would be desirable. I don't know whether there is sufficient scope for it. People seem to look out more for permanent investments than for short-term employment of funds.

3680. Don't you think it would be an advantage to the Reserve Bank to be able to hold in its portfolio continually, a moderate quantity of short-time Treasury bills that it could endeavour to sell in this way? In the first place, by so doing, it would obtain a certain control over the money market, increase its ability to enforce its rates; and in the second place, it would give it a source of profit in normal times when the banks were not needing to do any rediscount business with it, and in that way would enable it to pay its expenses?—Wouldn't that amount to taking deposits on interest?

3681. Why? It is simply the purchase of securities and holding them?—You mean they would purchase from the Treasury?

3682. They would purchase these bills from the Treasury or in the open market from time to time. At any rate they would keep part of their funds tied up in these bills. The Reserve Bank cannot in normal times do very much rediscounting for the other banks because the other banks don't want to rediscount. The supply of bills that the Reserve Bank could buy in the open market is rather limited, and to the extent that it buys them of course, it comes in competition with the other banks?—Yes.

3683. Here would be a kind of earning asset that it could have, which would yield it a moderate profit, and help pay expenses, and which it could sell or buy according to its needs for contracting the currency or expanding it in the interests of the general public?—May I ask if it would be your intention, supposing that was arranged, that the Reserve Bank would also be prepared at any time to discount such paper for the public?

3684. Not necessarily. The bank would buy these securities just as any other bank would buy securities as an investment. It would buy and sell according to its own needs and at market rates?—Suppose the Reserve Bank comes out in the market, and if it sells to the public any amount of these Treasury bills which may still have, say, two months to run; supposing in one month's time people want to get their money back, would the bank be prepared to discount the paper again?

3685. Not at all. If the people at any time want to get their money back, they must sell the bills in the open market?—That is just the trouble. The market being so limited, and there being no facilities for dealing in that way easily, it means that the people who buy Treasury bills must hold them until they fall due, and in this way lock up their money longer than may suit them.

3686. (Dr. Vissering.) What is the reason there are so few commercial bills on the market?—That is a very difficult question. The banks naturally would like to see bills in use. Mr. Clegg has made propaganda about it. But there you are up against the customs of the country. It is a very difficult thing to change.

3687. The country is changing; would it not be possible to change its customs also?—I think it originates really with the farmer; the farmer being dependent on his crops has a tendency of putting off paying his debts until his crops are realized; and that accounts for his having an open account with his storekeeper. As the storekeeper does not get his money until then, naturally he cannot pay the wholesaler, and so it goes on. 3688. (Professor Kemmerer.) The retailer knows from experience about how long he must carry his various customers, and the storekeeper knows also about how long he must ordinarily keep his accounts running with the wholesaler. If the wholesaler
would say to the retailer, "Now your account ordinarily runs three months, our prices are so-and-so if you buy on open account, but if you will permit us to draw on you for three months, and accept, we will give you a reduction, a discount, because the bill is of greater advantage to us than the open account." And, if he made it very clear to the retailer that the retailer was getting a real money advantage by accepting, instead of running his account on the open account system, wouldn't he do it?—I agree with you, it would be very desirable. I have used the same arguments, but the people say, "It is the farmers." They get into this way, and if the importer says to the storekeeper, "You must give me a bill," he replies, "I cannot be bothered." They won't have it.

3689. The retailer in this case would not be drawing on the farmer. He might be carrying the farmer on open account. He knows from experience how long his accounts run; they are paid about so often; some accounts are paid in about sixty days or in ninety days, and others in six months, etc. He knows from experience how much money is coming in. If the wholesaler says to him, "Now, Mr. Retailer, knowing what your experience is with these people, if you will agree to accept a bill instead of buying from us on open account, we'll give you adequate time on the bill so that, if you could pay on open account, you could pay on the bill; and we'll give you a very substantial preference in terms if you will finance your trade with us in that way." Wouldn't he do it?—Yes, but the mentality of people is peculiar. If you, as a casual buyer, go into a shop, you will have to pay the full price. But if you keep an account there, they will very often give you a discount.

3690. You mean you pay a higher price for cash?—They consider that a man who has an account in their books is more easily induced to come and buy. If he has not the money he will pay in time, perhaps. Anyhow, he is a client; he will pay eventually.

3691. (Dr. Vissering.) I have been told there are no fixed prices in the stores?—It may not be a general rule, but very often you can go into a big shop and obtain a reduction on the prices, competition is so keen; that probably accounts for the whole thing.

3692. (Professor Kemmerer.) One would think this very fact of competition would help the bill proposition, because the retailer who would accept bills and thereby get preferential rates on the goods he was buying, would be favoured in competition with the other fellow who was not getting those preferential rates?—There might be something in that. But there again, the wholesaler may feel he has more of a grip on his customer in the country if he has an account with him than if he buys against bills.

3693. They tell us these supported accounts and tied accounts that are so common a few years ago have been disappearing rather rapidly, and that there is quite a tendency now for the retailers to deal with a considerable number of wholesalers, and to buy where they can get the best terms. Sir Ernest Chappell was telling us this morning that that was true, and that the old tied account, the supported account, was rapidly becoming a thing of the past.—Well, it is to be hoped that the system will disappear.

3694. (Dr. Vissering.) What is your business with bills?—People say they would like to do it, but they find it very difficult to arrange.

3695. (Professor Kemmerer.) Have they gone far enough in giving preferential rates? If you are establishing a new custom of this kind, and trying to break away from the traditions of the past, and the rigidity of past methods, it is often necessary to give very decided preferential terms until you can get the old customs broken. And there would seem to be such a big advantage in the bill method over the open account method that it would be worth while for merchants to make very considerable concessions in order to get the bill method established. The Reserve Bank is very much handicapped in performing its functions to the South African public if there are not considerable quantities of bills.
that are rediscordable. A wholesaler is not in a position to get funds from his bank very well by borrowing on the security of his open accounts, and if he does the bank itself cannot rediscount open accounts with the Reserve Bank?—I believe that the banks might do something in making a bigger difference between their overdraft interest and their discount rate.

3696. Exactly?—They make some difference, at least they are supposed to do so; but I think in a great many cases there is practically no difference.

3697. (Dr. Vissering.) No difference between overdrafts and discount?—Very little difference.

3698. (Professor Kemmerer.) The overdraft charge ought to be very much larger than the discount?—It should be. I think there is a nominal difference made of, say, one-half per cent.

3699. That is hardly adequate?—That is so. If you want to encourage the bill system, you would have to make a substantial difference. But the banks may take the view that, if they did that, it would not bring them any more bills, and they would earn less.

3700. (Dr. Vissering.) So you see no way in which people can be accustomed to utilize bills?—I think we should try to induce people by giving them this advantage.

3701. Would the big banks be ready to give this advantage?—I don’t know. I am only expressing my own opinion. It very often happens that clients will give you bills and you send them out, and they are returned with the answer, “Cheque is being sent” or “Settling direct.” Very many of these storekeepers become offended if they get bills. They don’t like it. They say, “We’ll pay in time, don’t worry.”

3702. (Professor Kemmerer.) It is a question of educating the population?—Yes, of course.

3703. In America also, they had to be educated. It is very slow progress that we are making, but we are making some progress. I think the wholesaler, through one of his representatives, would have to go right to the retailer and sit down with him, and explain the situation, why it was desirable to do so, and then say, “If you will co-operate with us, we will give you special rates, so that it will pay you to do it.” By personal explanations, and by showing that there would be a real advantage, considerable might be accomplished. But lectures and newspaper articles and that sort of cold impersonal thing doesn’t have very much influence?—Yes, it might be tried. It should be tried. I agree with you it would be a very desirable thing for the country.

3704. (Dr. Vissering.) But what is your opinion about the Reserve Bank buying bills and selling bills on foreign countries?—I don’t think they should buy or sell bills. I think they should operate only in the T.T. market, and then only if there is any need for it. As long as the gold reserves are not in any way threatened I don’t think the Reserve Bank should enter the market and compete with the private banks.

3705. (Professor Kemmerer.) The Reserve Bank must operate in the open market for two purposes? One, as you say, to make its rates effective and protect the gold standard, and protect the public in the direction of assuring it reasonable rates?—Yes.

3706. The other is to carry on sufficient business in normal times when the banks are not rediscounting with it at all, to enable it to pay its expenses and earn a moderate dividend on the capital invested?—Yes.

3707. For either one of those purposes, it might be desirable for it to buy bills and sell bills as well as T.T.?—As trade is conducted in this country, if the Reserve Bank were to do that, it would mean its entering into all other kinds of business. It would have to give advances against merchandise.

3708. Not necessarily. It might enter the very limited field here, and not go into anything like as broad a field as the other banks go into?—If a bank buys export bills it very often has to give advances pending shipment. I take it the Reserve Bank would not do that?
3709. Why not, if it is high-grade self-liquidating paper, why not?—(No answer.)

3710. (Mr. Middleton.) Would an advance be made on a bill of lading?—Yes, the banks give an overdraft on any tangible security practically.

3711. (Professor Kemmerer.) The Reserve Bank should not give overdrafts, but why should not the Reserve Bank buy a 30, 60, or 90 days' sight bill that was covered by documents?—Yes, but very frequently the exporter wants the Reserve Bank also does, but that is not exchange business.

3712. (Dr. Vissering.) The Java Bank lends to the other banks on bills with documents that are going to Europe?—That the Reserve Bank could do that.

3713. Yes, it is exchange business?—Do you mean to say that the Java Bank buys the bills outright from the other banks?

3714. No, they give advances against these bills, but these advances are repaid in Europe, in Amsterdam, or in London, so it is the same thing as exchange business. They were paying the advance in Java currency to the banks, and the banks handed over the documents, and the bill was accepted against the documents. The documents were handed over in London, and then the Java Bank was reimbursed in London in sterling. So it was quite the same thing as the T.T., only with a difference of three weeks, whereas T.T. is on the same day. Of course, it was really exchange business?—What the Reserve Bank does here, is to advance against sterling bills in South African currency. Or rather, it discounts the bill as if it were an inland bill, drawn in South African currency. But the bill really remains the property of the commercial bank. The bill is forwarded to the Bank of England, and on due date the commercial bank pays back to the Reserve Bank the advance made. Then the Reserve Bank cables the Bank of England to release the bill, and the bill is handed over to the agents of the bank who collect it. Therefore the Reserve Bank takes no part in the exchange transaction.

3715. (Professor Kemmerer.) Why shouldn’t the Reserve Bank take part in exchange business with bills, provided the bills were representing bona fide commercial transactions, and were of a self-liquidating character?—Perhaps there is no reason, except a matter of policy. But apart from that, as I have explained, in very many instances, they couldn’t get bills unless they were prepared to give overdrafts. Why should an export firm sell its bills to the Reserve Bank if it must go to the commercial bank for facilities to buy the produce?

3716. If the Reserve Bank’s rates were more favourable for such bills than those of the other banks, I should think the concerns, many of them, would be strong enough to handle the situation for those few days by borrowing on other security, or borrowing elsewhere, and still take advantage of the Reserve Bank’s rates. It is certainly done in other places?—Well, I don’t know. I think you will find that most export firms, somehow or other, would not or could not leave their own bankers just for that reason. Unless they can get all the facilities connected with a particular bill from the bank that takes the bill, it will be difficult for them to leave their own bankers. The bills are quite all right. There is no reason why you should not take the bills; but the firms want facilities before they give you the shipping documents.

3717. It is only a question of a little more capital to tide them over those extra few days?—Yes. What reason would the Reserve Bank have to cut the rates of the commercial banks?

3718. There would be perhaps three reasons. One is to make its expenses; the other reason would be to make its rates effective when it needed to, and the third reason might be to force the banks to reduce their margin between buying and selling rates, in order to assure the public more reasonable rates on these transac-
tions. The Reserve Bank is supposed to be a quasi-public institution which is to operate not primarily for profit, but for public service; and in all three of those ways it might further its usefulness. Well, I very much doubt if the Reserve Bank could do it without becoming more a commercial bank than a bank of issue.

3719. We find there is a very widespread feeling in this country that the Reserve Bank has kept in the past too much aloof from the market; and that in the future, if it is going to prove useful and perform the functions the public is expecting of it, it must come out and operate much more vigorously in the open market. It is argued that if it does not do that, it will not be able to make its rates effective, it will not be able to pay its expenses, and it will not be able to assure the public reasonable rates. The public is depending on it, and if it does not do those particular things this agitation for a State bank will get such headway that it will force the Reserve Bank to be recognized as a State bank, or to be replaced by a State bank, and the State bank would then come in and very actively compete with the other banks, and carry on such business on a very much bigger scale than is advocated now for the Reserve Bank?—I don't think the Reserve Bank could do that without departing from the sound principles of a bank of issue.

3720. Sometimes public opinion forces banks to adopt policies that are unsound?—Well, that is a matter for the Government to decide. But I consider the Reserve Bank, as a bank of issue, should never depart from certain principles. If it does that, it would endanger the currency of the country.

3721. (Dr. Tisseron.) The Java Bank and the Bank of the Netherlands have been doing this business for many years. In the case of the Netherlands Bank, we have been in the dollar market for more than two years now?—I contend that conditions in European and American centres are very different because you have an open money market. A firm could hand its bills to any broker and say "Find the best rate." You can't do that here.

3722. (Professor Kemmerer.) Operations of this kind would tend to encourage an open money market?—I am only saying you must not go too far. I think the principle is quite all right that you come into the exchange market, but I think the operations ought to be restricted in such a way as in the first place to ensure the liquidity of the assets of the Reserve Bank, and in the second place not to unnecessarily restrict the field for the commercial banks, who are already handicapped through having lost the right of note issue. But there is one field where the Reserve Bank might perhaps make itself useful. I mean in the handling of the gold production.

3723. How would you have it operate there?—Well, that is the big item of export, and that is all done on a T.T. basis. Whoever controls the gold business controls the exchange market.

3724. The other banks make a profit on that too. How is the Reserve Bank going to come in and replace them in that respect? The other banks quote preferential rates right along. I understand, for the gold mining business, and it is quite a profitable part of their business. How is the Reserve Bank going to come in and take their place?—I think the mining people could tell you more about that. But, speaking in a general way, there are several circumstances connected with the handling of gold and the coinage of gold which, in other countries, tend to bring that class of business to the central bank.

3725. It would be very unfortunate in this country, would it not, which produces something like three-fifths or so of the world's total gold production, to bring all its gold to the mint and have it coined into sovereigns?—That would not be at all necessary.

3726. The bulk of the gold should always be exported from here in bars, presumably, and when it is exported in bars it would have to be sold in the London market probably through the representative of the mining industry, the Rothschild's. At present, that is being handled by the commercial banks at considerable profit, is it not?—Yes.

3727. They would resent the turning of that business over to the Reserve Bank?—No more than any other business.
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3728. (Dr. Visering.) We also had a struggle with the Java Bank. Now they are entirely convinced that it was necessary to do that. There is nobody in Holland who argues that the central bank competes with the other banks, we are only too glad that it does.—Yes. I repeat I quite recognize the principle, and am quite in favour of it, but there should be certain limits, especially in this country, because the conditions are peculiar.

3729. The whole country has to be educated to these new ideas?—It would require a complete change of existing methods. There are no brokers. If the Reserve Bank wanted to buy bills you would have to go about and ask every firm, "Have you any bills for us?"

3730. (Professor Kemmeren.) You would have to do what any other bank does, build up a clientele, come out in the open market, and compete with the other banks?—What market? You must create a market first.

3731. The same market as the other banks have?—They confine themselves to their regular clients.

3732. In our country, when a new bank wants to establish itself and wants business, it puts men on the road, and starts out and goes after the business?—That is not done here. Things are done in a very easy way. I admit it is peculiar, but there you are.

3733. The bank certainly must do business with the public if it is going to live. It must either die or do business with the public; and if it dies, there is a pretty good possibility that it will be replaced by a more vigorous institution like a State bank, which may do business with the public in a way less desirable for the banks and even for the public?—What I mean to say is, the machinery is lacking. You would have to create the whole thing. It seems to me it would hardly be becoming to the dignity of the central bank to send out its clerks to tout for business.

3734. We have a saying: "Self-preservation is heaven's first law."—To my mind, the Reserve Bank would have to publish rates of exchange which it considered reasonable, or in accordance with whatever they consider the necessities of their own bank, or the currency, or whatever it is. Then, naturally, the other banks would try and underquote those rates. In that way you would already influence the exchange rates.

3735. But you would not make much money, would you?—Perhaps not; but then the Reserve Bank might do exchange business with the other banks. They do not care to do business with it. The Standard Bank has done practically no business with the Reserve Bank since it has been established. The other banks, with one exception, have been doing very little business. In normal times, when things get back on a reasonably firm basis, there may be long periods when the market will be entirely out of the Reserve Bank; when the commercial banks have plenty of money, and don't want to have anything to do with it at all. Yet, the Reserve Bank must live through those periods?—I think the Reserve Bank is getting its money very cheap.

3736. It issues notes against assets, a part of which, 40 per cent., we'll say, is gold, and the rest earning assets. It is these earning assets we are trying to provide for. They ought to be represented by short-time liquid paper of one sort or another: bills, acceptances, possibly short-time Government securities, and the like. That is what we are talking about, the method of getting just that kind of paper?—Yes.

3737. The bank can't keep its notes in circulation and thereby make money, unless it lends money and keeps on lending it, because if it makes a loan, and places the proceeds to the deposit of the person borrowing, and the borrower takes it in the form of notes, then the bank is swapping, we'll say, its non-interest-bearing promises to pay for the borrower's interest-bearing promise to pay in the form of a bill or note. Then, if at the end of sixty days the borrower comes in and pays off the bill, that number of notes are presumably retired. So, in order to keep its notes out, it must always keep a considerable amount of earning assets on
the resource side of its balance-sheet, and those should be live, self-liquidating assets of short-time character. We are wondering just where it is going to get these assets in normal times.—Well, what about lending money to the Government?

3739. That would make it a Government institution. History has proved that to be one of the most dangerous types of institutions you could have?—Business in this country is done in a very old-fashioned and rather primitive way. It will be a very difficult matter to reform it. And I don’t quite see what measures of the Reserve Bank could suddenly change it.

3740. The duty of this Commission is to look at this situation as it is, and make recommendations as to what changes should be made in the interests of improving the currency system and ensuring a stable currency on a gold basis, if it recommends a return to the gold basis. We cannot take things as they are. We have to look at the situation and ask ourselves what changes should we recommend to improve that situation?—To return to this question of export bills, would the Reserve Bank go out of its way to establish credits in favour of firms?

3741. Does the Reserve Bank have the right to create open credits?—I suppose the Reserve Bank would be restricted to buying bills in the open market, under credits which have been established by, say, the purchaser of the produce with his London bankers. But supposing one of the commercial banks had arranged a credit for one of their clients, naturally this client would go to his own banker to negotiate a draft under that credit; he would not go to the Reserve Bank. The commercial bank, by giving its client facilities and so on, is in a very strong position to hamper the Reserve Bank in getting bills. All the Reserve Bank could do would simply be to depress the exchange market by cutting rates and making the rates very low. That may be the object you have: you want to reduce the margins, but I don’t know whether this would be in the interests of the business.

3742. We are wondering what the Reserve Bank is going to do if it cannot do these things. It must live? Perhaps not. Perhaps the thing to do is to do away with it entirely. But on the assumption that it should live, then we must find something that it can feed upon, some source of profit. Perhaps its powers should be widened, and it should be given as ample powers as the continental central banks. It must either take the cream of the bill business, or part of that cream, or it must come out and do other types of business of some kind in order to live and pay its expenses. It certainly would not be wise to tie its assets all up in Government securities?—No, I really didn’t mean that seriously.

3743. It is perfectly obvious, I suppose, that it is highly desirable in this country to develop the use of bills and acceptances so as to have a larger volume of discountable and rediscountable paper. It takes time to do that, and until that can be done the Reserve Bank presumably must live?—Yes.

3744. And in the long run it is probably to the interests of the other banks that it should live, because, while they might lose a little because of competition with the Reserve Bank for certain high grades of paper, they would probably gain considerably in the stability and safety that would result from having a strong central bank that would conserve the money market and be in a position to protect the exchanges, and to rediscount for them in times of emergency, and all that. The gains on this side would probably more than offset the losses to them coming from competition. The Bank of England competes with the other banks. There is complaint from time to time, and yet it isn’t taken very seriously by the other banks opposed very vigorously the open operations of the Federal Reserve Banks in America, but the Federal Reserve Banks are doing this business to an increasing extent, and they are proving a wonderful boon to the United States; and most of the more intelligent bankers now realize that the gain more than offsets the losses. The central banks of
continental Europe compete pretty generally, and they are bankers' banks?—I suppose it would mean opening up in other towns and issuing notes there on the same lines as Pretoria.

3745. Yes. As to the note issue, that is a question to be worked out?—Yes.

3746. The Reserve Bank has one decided handicap in coming into competition with the other banks: it cannot pay interest on deposits?—Neither do the other banks.

3747. But they can if they wish to?—Yes.

3748. And then the Reserve Bank does not have broad powers that the other banks have in dealing with different kinds of paper in making advances?—Quite so.

3749. It would have to limit itself to the very best grade of paper just as the Bank of England does?—Yes. I suppose you have found out during your inquiries that, apart from the exchange business done by the banks, there is a very considerable business done outside the banks. It seems to me this is a business that would probably come to you if you were going to cut rates, because this is business that is not in any way tied to the banks. People who are independent of the banks, of course, can sell or buy their exchange wherever they like. But the exchange the banks are doing at present is with clients who are in some way or other getting facilities from the banks. Supposing a bank were to say to its client, "If you don't give us your bills we will cut down your overdraft," what is the client to do?

3750. If South Africa returns to the gold basis, the margin between the buying and selling rate would be forced to much narrower limits than it is now. That would tend to stop these direct dealings between exporter and importer in exchange?—You can always make the margin smaller still.

3751. If you make it too small that would be unfair. The Reserve Bank would be criticized severely for that?—Where is the limit? It is very hard to say. In the East the volume of business is very big, and there the margin is very small, very finely cut. Here, the volume of business being smaller, the margin should be higher.

3752. It is also the case that the margin might be higher in some cities than in others. It would not necessarily follow that you should have the same rates of discount or the same margin in all parts of the Union when you have branches over the Union. It might possibly be that the Reserve Bank, so far as open market operations go, should only have branches in half a dozen or a dozen places, and should try to take the cream of the business there at very reasonable rates, and should not try to compete in the other places at all?—I cannot help feeling that the Reserve Bank's first duty, apart from securing its currency and so on, would be to become a bankers' bank; that is, to give facilities to the other banks.

3753. But here you have the difficulty; you have only two really important banks and several minor banks. Of these two important banks one is doing no business worth mentioning with the Reserve Bank, and the other may be in a position in the not distant future in which it will be independent of the Reserve Bank in normal times. There is so little competition between the banks that with the capital the Reserve Bank has, it has not a field in which to operate sufficiently to use its resources, enable it to pay its expenses, and perform those services to the public it should perform, if it limits itself to dealing with these few banks?—That is quite true. But I don't see how you can combine a commercial banking business with the business of a bank of issue.

3754. Well, it is done pretty generally in a great many other places—England, France, Germany?—But the conditions of this country are so peculiar. If you did it, you would have to depart from principles which you can follow in other countries.

3755. It is done in a good many small countries. In Uruguay, which is a country about one-tenth of the size of this country, with only about one-third of the population, there is a substantial central bank, a Government bank, which deals with the other banks.
and deals with the public. It does it very successfully. This last year I was chairman of the Finance Commission in Colombia. We helped to organize a central bank there, the Bank of the Republic, in a country about the area of this, about the population of this, a mining and agricultural country like this, with a large native population. And that bank is dealing with the other banks and also dealing with the public. There are any number of such banks in small countries that are doing that sort of thing?—This is a small country, as far as population goes, but a very extensive country. The business is so spread.

3756. Colombia is just about the same in area and population, with about one-twelfth of the railroad mileage that you have here, a country divided up by three important mountain ranges. They have a central bank and it has branches, and it is proving quite successful?—Are the other banks long established there?

3757. Yes. Some of them are very old. One of them recently had its fiftieth anniversary. There are more banks there than here. There is more competition there than here. Probably there are not as many banking offices, but there are more independent establishments there?—In this country the great majority of the trade people are so dependent on the facilities they get from the commercial banks that they would find it very difficult to break away.

3758. There is a good deal of complaint here of the banks, that their margin between buying and selling rates of exchange is too great, that their discount rates are too high, and that they exercise too much of a monopoly control, that there is no real competition?—Anyhow, I think whatever should be decided upon should be done gradually, because after all the paramount thing for the Reserve Bank is the currency. The present banking situation may be open to criticism, but one has to take into account all the existing conditions and difficulties. For the purposes of currency the Reserve Bank should be in a position to handle exchange business. But time should be allowed for the changing of the old conditions. I don't know whether the Reserve Bank with its present resources could handle the gold exchange business. It might mean having to increase its capital.

3759. (Mr. Middleton.) You would not say that a central bank necessarily needs a large capital? The Bank of Java's capital is only £500,000?—I mean to handle the gold mining industry business.

3760. On the question of domestic exchange, what do you think about having par remittances throughout South Africa? That would cheapen the cost of banking, would it not? The central bank would lose nothing and its duty is to provide currency?—I don't think it would pay, even assuming that the notes remained payable in gold at the head office of the bank in Pretoria only.

3761. (Professor Kemmerer.) That is a question that comes up in most countries where they have great distances as you have here. It is a common thing to make the notes payable only at the head office; but as a matter of practice the banks generally meet their obligations in the branches too, when asked. It is often found to be good policy to do so. After all, the amount of notes that are presented for gold is usually not very large. Perhaps the law should require only one place in the Union where they would be payable in gold on demand?—Yes. I believe the commercial banks in the old days, when they had their own issue, exchanged the notes in gold at the office of issue. If notes were issued from Capetown or Bloemfontein or Salisbury, those notes had to be sent to that particular place to get gold for them.

3762. (Mr. Middleton.) Do you see any objection to having par remittances throughout South Africa. Isn't it something the public might expect from the central bank?—No, I don't think so. I don't think any central bank does that.

3763. (Professor Kemmerer.) What is done in the United States is that the Federal Reserve Banks give to all member banks and to all clearing member banks, that is, non-member banks that keep funds in the Federal Reserve Bank for clearing purposes,
the privileges of par remittances throughout the country. The member banks themselves may not make any charge for collections for the Reserve Bank, but they make charges for remittances to their customers within certain narrow limits on the ground that they have certain overhead expenses in connexion with these remittances which they have the right to recover. But the law puts a maximum limit upon the rates they can collect. Many of the bigger banks make no charges for their better customers, but for the smaller customers they make a charge. The Federal Reserve Banks have granted this privilege to something like 17,000 or 18,000 banks without compensation?—I think it would be a very good idea if the Reserve Bank did it for the other banks.

3763. (Mr. Middl.) But not to the public?—Not to the public.

3764. But we have so few banks here, and the Bank's notes can be remitted to any point. There is not much difference between a draft and a note?—I can see no reason why the public should expect any bank to make transfers at par.

3765. (Professor Kemmerer.) In that case the public would demand, and demand rightly, if the Reserve Bank should do that, that the Government should provide by law that the banks couldn't charge for internal remittances more than certain moderate fees as we do in America?—Yes. There is also this to be considered: If the Reserve Bank is going to have its own branches in the principal cities, I suppose the commercial banks would be allowed to keep their legal minimum reserves, not only in Pretoria but in every branch?

3766. (Mr. Middleton.) Yes.—I mean to say that the relation existing between the Reserve Bank and the commercial banks should involve facilities for transferring money from one point to another through the Reserve Bank. The banks should have certain facilities from the Reserve Bank which the Reserve Bank would not give to the public.

MR. KARL GUNDELFINGER (examined).

3767. (Professor Kemmerer.) We have your memorandum here. If, when we get through with the questions, there is anything in your memorandum not brought out in your answers to our questions which you think ought to go into the evidence, just speak about it.—Yes. I am sorry that my memorandum is so late, the reason being that I have been laid up for over a month.

3768. What is your position?—Merchant, Durban.

3769. What character of business do you do?—General wholesale merchant.

3770. Importing and exporting, both?—Importing and partly exporting, though I might say I am indirectly interested in exporting in other concerns.

3771. You are familiar in your experience with both the import and the export trade here in the Union?—Yes.

3772. The Government, as you know, has referred to this Commission for advice the question of the advisability, or inadvisability, of returning to the gold standard 1st July next, regardless of what action may be taken in the meantime by Great Britain. It is upon that question that we want your judgment, and, of course, we want the reasons for that judgment. Do you think this country should return to the gold standard 1st July next independently of Great Britain?—Under present conditions, yes.

3773. You qualify it by "under present conditions." You appreciate the fact, I take it, that this Commission must make its report within a very few days; that when this Commission makes its report—and most people we have discussed the subject with think it is desirable—the Government shall come to a speedy decision as to what it intends to do, in order that the public may know and be in a position to prepare the way for the resumption of the gold standard 1st July next, if that should be the decision. That
being the case, it seems desirable, or almost necessary, for the Government to arrive at a decision promptly. We cannot very well say, “taking conditions as they are” or “if conditions continue favourable for the next four or five months.” The decision must be made soon, if the people are to be enabled to prepare for it; and that means that certain chances must be taken as to what will happen to sterling in the next few months?—May I put it this way: In principle I have always been for this country to have a currency of its own, independent of British currency; in other words, that we should not be linked to British sterling. I have always held that this country, especially of late years, would have benefited greatly had it had direct exchange relations with other countries in the world and not been dependent on British sterling. From a business point of view, I remember the matter was brought to my personal notice very strongly some three years ago. I think that was the time when British sterling was at its lowest in relation to the dollar. I think at that time it was something like 3.40. We had imported a large shipment of ploughs. and they came out at a very high rate, owing to the fact that we had to pay sterling for these ploughs. It was brought to my personal notice, because we received numerous complaints from our clients throughout the country, as to why these shipments of ploughs were invoiced so high. I had the question very carefully gone into, and I found that for our pound we only received about 14s. or 15s. worth of American ploughs. Now, at that time there was, to my mind, no justification for the South African pound not having exchange for nearly 20s. worth of American goods, because our trade balance with America was not such as to warrant that.

3774. What time was that?—I think that was in 1920-21. I don’t think we had then a very unfavourable trade balance with America. The balance was probably against us—in fact, I am sure it was against us—but at that time it seemed to me that we could easily have rectified that balance by making either a shipment of gold or through some other means.

3775. But you couldn’t export gold at that time?—But why not? We had the gold.

3776. The laws didn’t permit you to do it?—That’s what I am referring to. As a matter of fact, I addressed a letter to the Minister of Finance pointing out these facts, and that it seemed strange that we should not be able to get direct exchange with America.

3777. If they had permitted you at that time to take the gold out of here, and to redeem your notes in gold, and send the gold to America, you would have bought those ploughs a great deal more cheaply than you did?—Our storekeepers could have supplied the farmer with, let us say, a £4 plough for £3. 5s. or £3, which is a big difference. I am merely citing that as an instance. I went into the figures very closely at that time, and I couldn’t see why we couldn’t have rectified our adverse balance, whatever it was, month by month with America. Our exports to America probably come to 14 to 2 millions per annum, and our imports to 5 or 6 millions—I am just speaking roughly. Well, as I say, that is not such a big factor to rectify. Presumably there were certain invisible exports and imports as well.

3778. Isn’t the important fact in the situation this, that this country prohibited the exportation of gold, and the result was your currency supply in this country was kept at an abnormal height, likewise your prices, and your gold money was not permitted to take its natural position in the world market. The result was that both your paper and your gold here, because of the excess supply kept in the country through the restrictions on the exportation of specie, became abnormally depreciated?—Yes. Could I put it another way: We suddenly treated our gold differently to any other commodity we produce. I always wondered what reason there could be for treating gold differently from mealies, for instance? After all, it is merely a commodity which you produce and wish to exchange in the world’s markets at the best possible figure. But through the fact of us being bound down for some
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reason or another—political, sentimental, or other—and linked with British sterling—that caused all the trouble. When British sterling in 1919 suddenly made that great drop, at the time the British Government, for reasons of its own, decided not to maintain any further the sterling exchange rate with America. Up to then, I believe it was practically normal. Well, the moment the British Government decided to allow the British sterling to follow its own course, then we ourselves should certainly have taken better stock of our position, of our very strong position, and said, "Well, if British sterling goes down, through well-known reasons, through the enormous paper superstructure which was created in the years before, why should we in South Africa have to follow suit?"

3779. You believe you could have tied up to gold at that time and have continued on a gold basis ever since, and that it would have been to the advantage of South Africa to have done so?—I think so. Of course, many people say our gold would have been drained out of the country. Undoubtedly, a certain amount would have been drained out, but, after all, in the legitimate way, what gets drained out of the country must bring its equivalent back in return.

3780. Do you think there is a danger of a country that has a good gold reserve and a good currency and banking system having too much gold drained out? Gold goes out, does it not, because it is worth more abroad than it is at home by enough to pay the expenses of transportation and yield a profit, just as anything else?—Precisely.

3781. The more gold goes out the less there is left at home, and the more valuable is the specie that is left at home. And soon you reach the point where you stop exporting. Do you export gold for any other reason than you export meals?—No.

3782. You don't export so much mealies that you starve to death, do you, in any country?—No. The only danger that existed at that time, of course, was that a quantity of gold might have been smuggled out, or melted down; gold which was destined for internal use.

3783. Why should that have been serious? Any one who takes gold out of the country, whether he smuggles it out or not, must bring into the country an equivalent for it, must he not?—Not altogether in this country. We, in Natal, have, for instance, a very large Indian population; and there was an insistent demand during the war, and I think to-day still, for gold in India. They are hoarding it, I believe, like many native races. Now, many of those Indians leaving the country would undoubtedly, or had undoubtedly—until the Government stopped it—taken out a quantity of gold, for which we had not receive full value in return.

3784. Let us follow that a little bit further. An Indian works here for a certain length of time and receives in pay £100. He has rendered services in this country, in one form or another, to the amount of £100. Another Indian right by his side does the same thing. The first Indian eats it up, drinks it up, and has a good time with it here. In return for his services he takes £100 worth of goods, enjoys them, and uses them up. The other Indian uses up £50 in food and clothing and drink and economizes the other £50, and takes that £50 out in gold. In either case, each Indian renders full value to the country for the payment of the £100. Each Indian takes £100 out of the country, but the one just eats it up and drinks it up, and the other takes part of it out in gold. What is the difference? The country gets full value for it. Why not let them take it out in any form they wish to, under gold-standard conditions?—Yes, I think there is a great deal in that point; in fact, it is undoubtedly the case, provided we had maintained all along the gold standard. Much of that gold, however, was acquired at a time when there was no premium on it in terms of our own currency; hence, under the changed conditions, any one fortunate in getting it out profited greatly by selling it in India and elsewhere.

3785. The Government, I take it, either for a good or a bad reason, decided that it would not allow specie to go out and seek
its market. It would dam it up here and keep it here. By doing so it depressed its value, gave specie an artificially low value here. Then, naturally, if it has a low value here and a high value outside, any one that could take it out made a special illegal profit upon it—it was smuggling?—At that time, under the prevailing conditions, undoubtedly it was a loss to this country—that part of the gold which was smuggled out. But if we had had a gold standard then, if we had always stuck to the gold standard instead of parting from it, as we did in 1920, then, as you say, gold here would have had a bigger value; and it does not matter whether the men take gold or mealies or anything else out of the country. He has to find its equivalent somehow or other: either he renders services or will have to return something. If he goes to India, he may send us rice, or something.

Do you think it would have been possible to maintain gold parity during the time of the slump? Large quantities of goods were imported that had to be paid for?—Why not? America maintained its gold standard and paid for its goods. The whole world cried out for our raw materials. The whole world wanted our mealies, our wool, our diamonds, our ostrich feathers, our wattle bark. Why couldn't we have maintained it? Undoubtedly it would have made a difference in the exchange position as between export and import, but this rectifies itself. If, on the one hand, the exporter would have had to pay, let us say, a larger premium, or would have had his bills sold at a greater discount, the man who produced the wool would have got so much less for it. But the implements he bought to produce that wool, in fact everything he needed, even his suit of clothes, he would have been able to buy cheaper. It is bound to adjust itself somehow. Speaking as an importer, we get today on remittances we have to make to England about 2½ or 3 per cent. discount. That does not go into our own pocket. If I were the only importer in South Africa, probably it would, to be quite candid, but competition amongst us is so great, the result is that our costing clerks, without reference to the head of the firm, work out the costs of the goods at whatever they actually cost to import. Including exchange?—Including exchange, including everything. I presume that is done in every well-organized business. If some merchants did not do that, the other fellows would, and competition would soon force the former into line?—Commercial competition amongst importers in this country, I think I can safely say, is so keen that there is not a country in the world where it is keener. There are too many importing merchants here. The position has been extremely difficult of late years. Many of them sprung up during the war and are trying hard to hold on. That forces the older merchants who are well established into line.

You think they are all practically forced to do so by competition?—I am sure of it. On the lines we chiefly handle: hardware, groceries, provisions, rough goods—on the heavier items there of the whole gross profit is only 5 per cent. to 7½ per cent. How can you afford to ignore a 3 per cent. exchange premium? It is a profit in itself.

Under those circumstances, is it true that, when the discount increases, I mean when the value of the South African pound increases in terms of sterling—say, if the rate goes down from 90 to 93 and 94, and so on—that tends to stimulate imports?—Why should it stimulate imports? We should not import more than we need?

No, but after all the amount you import is a question of profit. If you were working on a 4 per cent. margin of profit, we'll say, and with the exchange rate at 96½, you could buy £100
stern for £964 South African. Now, if the exchange suddenly dropped to 90, whereby you could buy £100 sterling for £290 South African instead of £964, you would add to your 4 per cent. margin 6½ per cent. on exchange until such time as there was a price readjustment; there would be a tremendous increase in profits temporarily. Wouldn't that tend to encourage you to increase your imports at such a time?—In this country not to a material extent. It might possibly in a country like England or America with your teeming millions of population, where you have enormous markets, where it is not so easy to over-import. But in this country we have a limited population, we have limited markets, and we get so quickly overstocked. If a merchant to-day is tempted by a specially low quotation, let us say, in the coffee market, to import double the quantity he usually imports more often than otherwise, he will be the loser thereby—in fact, an old-established merchant will not do it, because he has learned his lesson. The reason is, we have no outlet; our outlet is so small. We have 1½ million whites. We have 6 million natives, and with the natives their wants are so limited. If we go in for over-importation at all, we go through the crisis of 1921 again. In 1920 I think we imported an enormous quantity of goods. What was it? The fact was we all over-imported, and it has taken us all these years to get rid of our over-importations. We are only now about clear.

3793. We have a chart here that has been prepared by the Bureau of Census and Statistics, which shows the movements of the exchange rate illustrating. You will note that, beginning in 1920, when your South African pound appreciated in terms of sterling, shortly after it was followed by a great increase of imports. When the exchange, on the other hand, rises greatly, the rise is followed shortly after that by an excess of exports. And there is always a lag between the one and the other. But there is a remarkable tendency for the trade balance to swing with the ups and downs of the value of the South African pound, which seems to show that an increasingly valuable South African pound in terms of sterling does stimulate imports and retard exports; and a decreasingly valuable pound in South Africa stimulates exports and regards imports.—Do the expert economists show that in their papers? To a man engaged in commerce I don't think one has any relation to the other. What has taken place took place quite irrespective of these factors. I said before in 1920 all we commercial men lost our heads. Most commercial men made money in 1919 and 1918. We couldn't get enough goods. It was just immediately after the war period. And in 1920 our imports went up to £1,000,000,000 sterling. I think you will find they doubled themselves practically in that one year. [Inspecting chart.] In 1920 our imports came to 105 millions sterling; in 1919 they were only 53 millions sterling. In 1921 they were only 58 millions. In other words, in 1920, the commercial people suddenly doubled their importations.

3794. (Mr. Peersall.) In money values?—In money values, not in physical quantities. If you take the money value between 1920 and 1921, there is a difference of, let us say, 20 per cent.

3795. (Professor Kemmerer.) Much more than that?—That did not show itself so quickly in this country. The stocks were held right through.

3796. We have the price figures as they were quoted right from the markets?—Yes, but you had in 1919 already very high prices overseas.

3797. For the quarter ending 30th June, 1920, prices in South Africa stood at 232, as compared with 100 in 1913. For the quarter ending 30th September, 1921, that is, only a little over a year afterwards, they stood at 138, declining from 232 to 138. That is a pretty big percentage decline?—But I would like to refer to the year previous, 1919, when prices were nearly as high, I should think. For 1919 the figure is 243, for 1920 it is 312. In 1919 our importations were 53 millions, and they doubled themselves in 1920. That is not accounted for by the difference in price alone. Now, it is this extra difference, this extra importation which, to my
mind, caused this exchange fluctuation. It had to be paid for. Usually the people at home draw on South Africa at 60 or 90 days' currency. The banks, no doubt, would know better, but this must have caused a great strain on the bank balances.

3798. This table here [illustrating] shows that you had your great increase in the discount coming in here and in the season of imports coming here, almost simultaneously, and that in general the movement of imports seems more or less to follow the change in the rate, and not to precede it?—With many of these things we have to bear in mind the buying power of the public. We may have, for instance, a very good mealie season. It makes not the slightest difference whether our imports go up 50 or 100 per cent. If the mealie season is good, the farmer has more money and can buy more, and if he has a bad season his spending power is accordingly reduced. This last year we had a very serious drought. The whole country suffered. The buying power of the bulk of the farming population was materially reduced. The result is, business this year suffered all round, and importations were so much less afterwards. Of course, we are expanding in other directions, which may possibly balance under-importations afterwards.

3799. You say that any benefits that the importer gets through a substantial appreciation of South African pounds in terms of sterling are passed on quickly to the consumer?—It is part of the prime cost. Let me put it this way: We, in our business and most big establishments, have for costing purposes little printed slips with the sub-headings of home cost, freight, exchange, currency, whatever it may be, insurance, buying commission, customs duties, etc. Those are all added up. They are all calculated in that first cost.

3800. Your exchange we’ll say is 96t, the rate at which you buy. You calculate that in your costs. There is a gain then of 3½ per cent. on exchange?—Yes.

3801. After you have bought those goods exchange drops to 90. The fellow that buys goods then, the same goods, the next week and for some time to come buys at 90, and makes a 10 per cent. profit?—Yes.

3802. You don’t buy any more. You are stocked up. Can you hold your goods at that level, or must you revalue the goods, in order to compete with the other fellow, so as to pass that exchange difference on as soon as it occurs, regardless of what price you have paid for the goods?—Let me put it in this way: So follow you are speaking of, who has been so fortunate as to just catch the best moment—of course, if he is at all worth his salt as a commercial man, he will look round and see what is the general market in the country. He may be the first one buying at this favourable rate, and he will certainly try to sell his goods at the market price of the day. If fifty of us bought at 96, and one or two only bought at 92, then the latter will certainly try to sell at 96 and make the extra profit. Other shipments may come up at a lower rate and bring the market down. They will naturally have gained at the start, but this gain may be off-set. A time may come when they may be buying at, let us say, 98, and the market may go down to 94 against them. They have to lose. It is a kind of see-saw. If you buy mealies at 14s., and the market goes up to 15s. 6d., that is your gain, if you have not sold them yet. But that gain it not definite yet. Next year the market may be going backwards. You must set off one against the other. There is always a factor of speculation, if I may so call it, in all big business, in all business of that description. It is a gamble. You may be fortunate. Take the case of the firms dealing in butter last year in Johannesburg. They bought the butter in summer when it was cheap, and, as usual, stored it in the cold storage for the winter. They then made lots of money. But what happened this year? This year they again bought butter in the summer and stored in cold storage, hoping to sell at a profit in winter. As it happened, the Almighty was very kind to most of us this year—but perhaps not to the butter merchant—by sending plenty of rain very early in the season. The result was South Africa had a
plentiful supply of butter the whole year, and butter, instead of going up, went down. And those people who last year made money on butter lost it this year. That is all in the see-saw of business. The question of exchange to the importing merchant is of no consequence, as far as his own profit is concerned. You might just as well say the manufacturer at home charges you £2 or £3 more or less for an article, including exchange, whichever way it may go. It is part and parcel of your prime cost. There may be merchants who speculate with it.

3803. Is the same true of the exporter?—The same is true of the exporter, but he is in a somewhat different category. The importer imports an article. He sees what it costs him landed, and he puts his ratio of profit on it which he thinks he needs, and tries to sell. With the exporter it is different. Take the farmer producing mealies or producing wool. He has to sell the mealies or wool he exports at the world's market price ruling in London, Hamburg, New York, or elsewhere. He cannot simply say: "My mealies or wool cost me so and so much, and I demand so and so much for them." He has to ship them and take what is called "pot-luck" for what they may fetch in these centres. Hence the adverse exchange rate against him is bound to come off the price he realizes for his goods. But his benefit, as I indicated before, comes in by the fact that if the importations come in cheaper, through the premium, he is able to buy his farming and household requirements cheaper. He has to import stud rams from Australia or ploughs or fertilizers from Europe and America. He benefits in that way.

3804. Doesn't he benefit in his local purchases also? If, for example, this country should stabilize its exchange, we'll say, and sterling should depreciate so that £20 here were worth for a considerable period of time £100 over there; wouldn't it follow that within a reasonable length of time the prices in this country would be adjusted so that prices in general would have to be something like 10 per cent. lower here than they would have been had you tied up with sterling?—Undoubtedly, if our gold sovereign will purchase more. The cost of living must sooner or later be reflected favourably by it, and labour eventually is bound to be affected as well. In the long run it is bound to affect every phase of our economic life. Although the farmer may have to pay a 3 or 4 per cent. premium on the wool he has shipped away, he will be able to produce it cheaper, because everything that is required to produce that wool, everything that is required by him for his own living, will be favourably affected. It may take some time—it may not be quite immediate because stocks are held, but eventually it is bound to come about.

3805. Taking all the factors into consideration, do you think this Government should announce, within the next month or the latest, its intention to return to gold parity 1st July next?—I think, as a matter of principle, Government should announce its intention to return to the gold standard, provided the unforeseen does not happen, and gold suddenly rise again to a considerable premium.

3806. Do you think it would be expedient for this Government to make an announcement now, "We are going back to parity 1st July next, unless the unforeseen happens and sterling declines in the meantime"? That would not get you very far?—No, the thing is this: Seeing that we have departed from the gold standard—which I again repeat to my mind was not wise—and the unforeseen happen, it might be a wiser thing to go back gradually to the gold standard; the same as they did in England in 1819.

3807. You are practically at gold parity now?—Yes.

3808. If England stays where it is, why, you are at gold parity 1st July next?—Quite right.

3809. If England continues the advance that she has made during this last year, sterling would be at gold parity before July next?—Yes.
3810. If England continued that advance at only half the rate of 1924, sterling would be back at parity 1st July next?—Yes.

3811. So, in any one of these contingencies, there is no trouble?—No.

3812. If sterling turns around now, within six months of the time that you are supposed to return to gold parity, according to the existing law, and starts a long downward move as she did in 1923—she went down nearly 10 per cent. in 1923—and there is a possibility that she will do it again; then the question is, should this country now decide in a case like that, that she is going to follow her down? That is the decision we have to make?—The question then is whether it would not be wiser to go back to it in gradual stages.

3813. There would be no gradual stage. If you stay where you are, you are there. You would not have occasion to return gradually, unless sterling should go down, and you should follow her down. The question now is, should you follow her down if she turns around and goes down?—If possible, no, but if necessary partly so only. Assume for instance the unexpected happens, and sterling depreciates 20 per cent. by the 30th June. What would be the effect if we were to go back to the gold standard then, in view of our existing relationship with England economically? It might create considerable economic disturbance. Why? Would it not create much less disturbance if you hold your currency at the value it now has and to which your price level has been adjusted for some time?—My inclination is at all costs to go back to the gold standard, as I firmly believe it was a serious mistake to have departed from it in this country. I say, if you as experts think too great a disturbance would be created thereby, although I personally, as I state in my memorandum, cannot see this very great disturbance, possibly because my mind is not sufficiently trained to it—then let us go back gradually, the same as was done in England in 1819.

3814. If you start following sterling and follow her down 5 or 10 per cent., and after you have broken with gold, do you think you would be able to say, “We will follow her so far, and no farther,” and be able to stand by yourself without being tied either to sterling or to gold?—What would be the effect of making our paper convertible at certain rates into gold, the same as was done in 1819?

3815. I don’t see any argument in favour of that now. When you are at gold parity?—To-day, yes, we are practically at gold parity.

3816. Now, you are practically back to the gold standard. Your exchange is at parity with gold, or so near parity that the difference means very little. Your Reserve Bank has something over ten millions of gold here. You have large gold reserves. You are the largest gold-producing country in the world. If it was a mistake to follow sterling then on the downward decline, why wouldn’t it be at least an equally serious mistake to follow her now?—I don’t say we should follow sterling altogether. I merely say if it would be found necessary—although I am inclined to think personally it should not be necessary—that we should only do it hesitatingly, that we should only return to gold step by step.

3817. If you start following sterling and follow her down 5 or 10 per cent., and after you have broken with gold, do you think you would be able to say, “We will follow her so far, and no farther,” and be able to stand by yourself without being tied either to sterling or to gold?—What would be the effect of making our paper convertible at certain rates into gold, the same as was done in 1819?

3818. I don’t see any argument in favour of that now, when you are at gold parity?—To-day, yes, we are practically at gold parity.

3819. There is no occasion for that unless you decided to turn around and follow sterling down. In that case you will have to inflate as sterling inflates in following her down. If you say you won’t follow her any farther down than, say, 10 per cent., and then you should deflate again, wouldn’t that be a pretty painful process: first to inflate, to put up your cost of living and have all your labour difficulties that that involves, and then to deflate again. Isn’t that a pretty big price to pay when you are already at gold parity?—Following your line of argument, I would say then, “By all means stick to your gold standard.” We are to-day practically at it. The idea is to make all payments convertible. I say then,
do it at all costs. In my memorandum I brought the other alternative in merely in case your own ideas should be so overwhelmingly in favour that the results might be too much of a shock. Undoubtedly we have many economic relations with England, and possibly other relations too, which might perhaps make it advisable under the circumstances—in a case which is not likely to occur—to go half-way. But in principle I am against it definitely.

3820. You think, unless some very strong evidence should be produced to show that it would be a serious shock, the thing to do now that you are at gold parity, is to clinch that parity between now and 1st July next, regardless of what happens to sterling?—Yes, definitely. There is another reason why we, of all countries, should have gold parity: we produce gold and should encourage the use of gold as much as possible.

3821. (Dr. Vissering.) You are of opinion that in 1920 it was the duty of the Union of South Africa to maintain its gold parity?
—Yes.

3822. Then you had the great slump. Now you are in a much better position. If you could have done it at that time, why not now?—Personally, I think we can do it. But if in your evidence you may come across very special reasons, because we in South Africa are allied to England in so many ways, special reasons that we should not disturb our economic relationship unduly, only in the case of a gradual return. But I cannot myself visualize such special reasons.

3823. In 1920 the exchange was far from gold parity. Now, you are nearly on the level?—I think we should absolutely stick to it.

3824. (Professor Kemmer.) Isn’t it true to-day that the great bulk of the world is off the gold standard, and that most of the world’s international trade is being carried on between countries that are in unstable exchanges with each other? Great Britain has a great trade with America. She has an unstable exchange with America. She has another big item of trade with France; she has an unstable exchange with France. She has been carrying on a large trade with Germany; she has an unstable exchange with Germany. She has an unstable exchange with Canada. She has unstable exchanges with every South American country and with the East. And yet trade is going on on a large scale. One of the reasons that that is possible is that the risks and uncertainties incidental to a fluctuating exchange with a country with which you are doing business, in a great proportion of countries, are largely eliminated through the practice of fixing exchange forward. Of making forward contracts in exchange. An exporter who knows he is going to export goods in the next three months, and does not want to run a risk of exchange loss, goes to his bank and says, “I am going to have £10,000 sterling of bills that I shall want to turn over to you 90 days hence. I want to know what you will give me for them, so that I can know what to count upon in making my purchase.” The bank quotes him such-and-such a rate. The next day, or the same day, an importer comes in and says, “I will want to buy £10,000 sterling, 90 days hence, to pay for certain imports. I have to make my arrangements here for selling the goods, and I don’t want to run the risk of a possible loss through an adverse exchange. At what will you agree to sell me £10,000 sterling 90 days hence?” The bank has agreed to buy the bills of the exporter at a certain rate; it now agrees to sell drafts to the importer, with a margin of difference. The bank has hedged. No matter how sterling goes, the bank is all right; no matter how sterling goes, the exporter is all right, no matter how sterling goes, the importer is all right. That is the position in almost all countries where they have unstable exchanges. As nearly as I can understand, from talking with merchants and bankers here, forward exchange contracts are practically unknown in this country. If you tie up to gold, and sterling begins to fluctuate and you have these uncertainties which are serious evils—there is
no question about that—is there any reason why you should not do in this country, what most other countries are doing, and eliminate those risks largely through forward operations?—There is no reason whatever, except that in this country we are still a young country so far as export is concerned. At present it affects our exports chiefly.

3825. Exports and imports as well. The importer wants to know when he is making contracts for the sale of goods, or for construction work, or what not, not only what he is going to pay for his goods in pounds sterling, but what he has to pay for the pounds sterling in South African pounds?—There are various reasons why it is not being done in this country to any great extent. The one reason is that the average South African importer and exporter is a novice in the business of finance. They are not very expert in matters of finance. The average commercial man is not. The second reason is our banks have not catered for that class of business.

3826. Dr. Vissering.) They could be educated by the banks?—Yes, if we had here more private banks. We have here two big banking institutions, which have hundreds of branches throughout the country, managed by managers who are not really finance men. I wish to say nothing against the managers of the branch banks in this country, but they are not men who have had real experience of that class of business.

3827. (Professor Kemmerer.) It doesn’t take a great deal of financial knowledge to make forward contracts, does it?—That is so. Although, in this country especially, in the export of produce, of wool, of maize, etc., there enters a large factor of speculation, and I think our exporter rather likes it.

3828. Here you have two groups of exporters. Here is one exporter who says, “My business is raising wool and selling it. I don’t know anything about this exchange business. I want to make my profits on wool and stick to my trade.” Here is another fellow saying, “I am exporting wool, but I am willing to take a fling with exchange. I think the exchange rate is going down.” The fellow that wants to play safely can do so. The machinery is there. The man that wants to speculate in exchange can always speculate in exchange anyway. You don’t compel people to do this: you merely afford the facilities for those people who want to eliminate exchange risks?—I think in many countries the average merchant, exporter or importer, has been educated up to that.

3829. Isn’t it about time these people here should be?—I agree.

3830. Here you have only, as you say, two important banks. If those banks don’t do it, I think the chances are they might be induced to do it, if the merchants demanded it, but if they don’t, you have the Reserve Bank, and one of the first functions of a central bank in any country is to maintain the stability of the currency, to conserve the money market, and keep rates from widely fluctuating. The Reserve Bank could step in and offer these facilities if the other banks would not do so?—From our own experience the last three or four years, the German exchange fluctuated enormously. One of my colleagues, a director of my firm, went home to Europe on buying trips in 1921 and 1922 and 1923. He bought in London. He went in due course over to Hamburg. The very first day he arrived in Hamburg the exchange broker came along and said, “You require to buy. Don’t you wish to cover in some of your requirements. You are going to the Leipzig Fair.” Here is a man who goes out to try to show you the benefits of covering in. In this country, nothing of that sort is ever attempted. Your banks in this country act more like, let us say, the official mind. They wait until the client comes there. Of course they have a kind of monopoly. The result is that your South African public is not so educated up to these exchange questions.

3831. This Commission is here, not to take things for granted and assume that things that have taken place are always going to take place. We are here to advise the Government as to how
Mr. Karl Gundelfinger.

...to improve conditions. Isn't this one method in which conditions could be improved?—I am sure it is. In any case, if the exchanges fluctuate widely, and they will probably do for a while, no doubt one and another will be educated up to this. But the facilities have not been exhibited, so to say, in the shop window. Your bankers remain in their offices and wait for the man to come in and ask for information. The average man does not think of these. In America, I presume, you have your exchange brokers as you have on the Continent or in England. They come forward; they go out every day and see whether there is a chance of doing business: hence you are being educated up to it. Here you are not. Some of the bigger merchants know about it. The smaller men don't and our staffs don't. I think the training of the bank staffs here is not universal enough. It is not the same kind of training as on the Continent. Your banks here are not commercial banks in the ordinary sense. Take France or Germany, and presumably America: you used to have hundreds of small bankers, many of whom have been absorbed. They went out, the same as we merchants, to try and sell their goods in order to benefit themselves. Your bankers here are to the average man somewhat unapproachable. Your whole banking system in this country has, if I may say so, too much of the autocrat about it. And in times of stress our banks have hardly been of help to the country. Take the boom of 1919-1920. The banks are more responsible for the losses incurred after that than any one else.

3832. Why?—I will give you instances. I had a man in my office last year, a man who had owed us money for some time. I knew him personally, and gave instructions that he should not be worried. He came to Durban, called upon me, and said, "You will be pleased to hear I have paid my indebtedness at last." It was eighteen months overdue, and our terms are ninety days. But I knew his difficulties, hence I gave instructions that he was to be left alone. The fact was he had a store in the country, and, like many others, speculated in wool. He said: "My bank manager is responsible for my position to-day." I said, "Why?" I knew all right, but I wanted to hear it from him, as I heard it before from many others. He said: "When wool went up from 1s. 6d. to 2s. and 3s. a pound, the local bank manager said to me, 'Why don't you do the same as so and so? He is buying wool!'" The storekeeper said, "I have no money." The bank manager replies, "I will give you all the money you need for buying wool" and so he bought. The banks up-country urged on these little people to buy and buy, thus bidding the price up against each other, and it was purely the banks' policy which was responsible for wool going up at that time to 5s. and over a pound. The shopkeepers by themselves could never have advanced it to that figure, and the small man, who, before, had an overdraft of £500, suddenly managed to get an overdraft of £5,000 or £10,000; but the moment the slump came, the banks pulled in. But they did not pull in gradually. Headquarters seemingly issued instructions that the overdrafts must come down definitely, and there was so little discretion allowed to the local men, that many people went in thereby. In other countries they would have been kept going and nursed back into life.

3833. That is a partial explanation of the many failures here?—Yes, to my mind. I think the banks here deflated too suddenly, and too suddenly called in their overdrafts. If you look at the bank deposits in these years, you will see the enormous difference. You can quite understand what it meant in a small country like this when such very drastic steps were taken. That could not be good.

3834. (Dr. Timmering.) How were the deposits created here?—That is a big question. If I go to the bank and say, "I want to buy wool," the bank advance me the money for that wool. The bank grants me a credit of, say, £10,000, whereas I buy wool at, say, 4s. a pound, whereas when wool was only 2s., only £5,000 would have been needed. The bank's deposits will have increased by £10,000 when the wool is sold again and payment received.
3835. **(Professor Kemnerr.)** It is an overdraft?—It is an overdraft in the first instance. When I sell that wool, and I get the money for it, I deposit it.

3836. Don't you pay your overdraft when you sell the wool? That does not increase the deposits. It just decreases the overdraft?—Yes, but the farmer got that money.

3837. It was the farmer who built up the deposits then?—In this respect the farmer and the storekeeper. Wool rose from week to week. The storekeeper bought wool at 3s. and sent it down to the coast and got 4s. for it; he made enormous profits thereby. That led him to make new deposits. In course of time the market went back and wiped out all those deposits. The profit had been created because the market rose practically from day to day, and these people, the farmer and the storekeepers, made large profits. They bought more and more with their own capital, because they had made such large profits. But suddenly the slump came, and they were landed with, perhaps, £5,000 worth of wool which they couldn't sell for £2,000.

3838. Meanwhile, it brought down their deposits, and they lost all they had gained before?—They lost all they had gained before. That caused most of the many bankruptcies.

3839. Have you any judgment to express with regard to the functioning of the Reserve Bank? Do you think any changes should be made in the present policies of the Reserve Bank?—One has had hardly sufficient time to judge of the Reserve Bank.

3840. It has been operating for nearly four years?—We, as a general public, have never come in contact with it.

3841. Have you ever carried on any operations with the Reserve Bank?—No, I don't think we can. The Reserve Bank is not supposed to take our paper.

3842. The Reserve Bank can buy paper in the open market, and can sell it. It has not done so to any extent, but it can do so, according to law?—I understood, according to the constitution of the Reserve Bank, that it may not enter into competition with the commercial banks.

3843. No, there is nothing in the law to prevent it from doing so?—The other day, at the Chamber of Commerce, of whose committee I am a member, we had a circular-letter from the Reserve Bank, in which they said they are now discounting first-rate paper at 5½ per cent. Before that, I think it was 6 per cent. We caused our secretary to write to the Reserve Bank to inquire whether they are now prepared to accept paper direct. We have not yet had a reply.

3844. They are trying their best to encourage the use of acceptances. One of the methods they are adopting is to try to bring the customers to deal directly with them, and they are offering preferential rates?—We have had no experience of the Reserve Bank as yet. This has not been known in this country before.

3845. You did not know before that circular that the Reserve Bank was ready to deal with the public?—No. We had a full committee meeting of the Chamber of Commerce in Durban—and we are usually well-advised—and when this circular came before us, two or three of us at once asked, "What has happened?"

3846. Didn't any of your Durban Chamber of Commerce know that the Reserve Bank was ready to carry on operations directly with the public?—No. According to paragraphs appearing in the Press from time to time and from the utterances of public men, the Reserve Bank is only an issuing bank for notes and a bankers' bank, and, in order to compensate the commercial banks, it undertook not to enter into direct competition with the commercial banks.

3847. There is nothing in the law to that effect at all?—That is strange. On the way up from Durban, I happened to read again in one of these publications, something to the effect that the Reserve Bank could not compete.
3848. The Reserve Bank, I believe, cannot grant overdrafts to the public, but it may buy and sell exchange. It may buy and sell trade acceptances, and carry on a considerable amount of open market operations of a commercial character, directly with the public. There is nothing in the Act to prevent it; in fact, there are special provisions in the Act authorizing it”—I shall hand you to-morrow a page from the Transvaal Mining Journal where there is an extract given of the constitution, that the Reserve Bank is not allowed to enter into competition with the other banks.

3849. Here is a summary of the Reserve Bank’s powers: "Its business shall consist in part of the issue of notes and receiving of deposits, and the collecting of money for corporations and individuals. It may buy, sell, or rediscount promissory notes, bills of exchange, or other commercial paper, bearing at least two good signatures, having not more than ninety days to run; agricultural and live stock paper having up to six months to run, up to 20 per cent. of its total discounts, and paper for carrying or trading in Union Government securities, up to ninety days, provided it bears the endorsement of a bank. It may further buy or sell sight drafts, acceptances, or bills drawn in or on outside countries."—That is strange. The commercial mind of South Africa, I think I am safe in saying, has always been under the impression, and has been allowed to remain under the impression, that the Reserve Bank is purely a bankers’ bank, for the purpose first of all of watching the issue of notes, watching the state of the exchanges, and in times of stress to be a rediscounting bank for the other banks.

3850. And it could do nothing in normal times?—Except, I presume, to watch and regulate the exchanges as far as possible. 3851. It couldn’t regulate the exchanges very much, if it couldn’t go out and deal in the open market. When you have only two banks here of any size, and when one of those does not rediscount hardly at all with the Reserve Bank. That would be a strange situation?—It is very strange. Now, has the Reserve Bank done any commercial business up to now?

3852. They have been ready to do it right along, but no one has come to them.—It comes back to the question with the ordinary banks about buying your exchange ahead. They sit in their offices and expect the man in the street to come hat in hand and inquire, "What have you to say? What have you to sell?" That is the case.

3853. The origin of this understanding you have in mind is partly this, as I understand it. When the Reserve Bank was established here, just as was the case with the Federal Reserve Banks in America, the other banks fought it and were opposed to it pretty generally. They were afraid the Reserve Bank would compete with them. So, it was stated by some people in political life, publicly, once or twice, that if the Reserve Bank were established, it would not compete with the other banks any more than was necessary to carry out its proper functions, or something of that kind. That was not in the law, it was just a remark made by certain people in more or less high positions. And the banks have made a great deal of that, and have given a very high degree of publicity to it; and the country has, apparently, come to believe it is part of the law?—How is it that responsible commercial men did not take the trouble of making themselves more acquainted with the Act, with the constitution? My reply to that is the following: When the Reserve Bank was established, I think most of us read carefully through the constitution, but as you say, it was always emphasized by public men and others, and we have seen it repeatedly in print, and it was impressed on our minds, that the Reserve Bank is a bankers’ bank. And in our belief we were supported by the fact that the Reserve Bank never comes out in any way whatever—until three or four weeks ago, when the circular arrived that it was prepared to do business direct. Until you told me now, I was not really aware of it. When I go back to Durban and tell my friends that, they will tell me I must be wrong.
3854. The only thing to do is to have them read the law?—That is quite true. But if the Reserve Bank is here to help the country at large—and helping us is helping the country at large—why doesn’t it go out of its way and tell us, and make it generally known, instead of allowing wrong statements to sink into the public mind, to the effect that it can only do business for bankers? The Reserve Bank has not indicated in any way whatever, except the last few weeks, that it could do business with the general public. There is a good deal to be said in favour of small banks in this country.

3855. (Dr. Vissering.)—Do you think that there should be a greater number of small banks?—Independent banks, I don’t mean branches.

3856. There is no competition here?—None. The small banker, as in European countries of old, undoubtedly has filled a place in the economic life. 3857. (Professor Kemmerer.) We have about 32,000 independent banks in the United States!—Your law prevents branch banking.

3858. Except with minor qualifications. There are some branches, but branch banks are greatly restricted?—I think this country could do with more banking competition than it has. I have had chats with the general manager of the Netherlands Bank who was passing through Durban about a year ago. I asked, “Why don’t you people try to come out here with more capital?” I said to him: “In times of necessity, our requirements are so great, and your capital is so small relatively, that you cannot afford to cater for the larger merchant’s business.”

3859. (Dr. Vissering.) That could be done by rediscounting, with good commercial paper?—Yes, it could do that. But there is always a certain risk attached to paper. It seems to me, a business man, or a banker, wishing to go on sound lines, must always bear in mind the relation between his own capital and the facilities he gives. The big firms at times may require very big amounts, which, with the capital of a small bank, it would not be prudent to give. The Netherlands Bank cannot hope to be a competitor for the really big business with the larger banks, because they cannot run the risks of these big accounts.

3860. (Professor Kemmerer.) It is a common thing in many countries—it is certainly true in America—to restrict by law a bank from lending to one customer more than a certain percentage of its capital, for the very reason you mention. It does not do to put “all its eggs in one basket”?—In our own business some months ago, a proposition came before me personally, which required a very large amount of capital; a very sound and safe proposition, which would pay handsomely. I had to turn it down. The man was surprised. He said, “I come to you because I know you, and it is sound.” I agreed. But I said I could not afford to take on such a big thing. We had many other engagements, and I was not prepared to go in for such a very big strain. Mr. Postmus, the General Manager of the Netherlands Bank, was on his way home passing through Durban, and I told him that that was one of the difficulties with his bank in getting big business.

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3861. (Professor Kemmerer.) What is your present position?—A land surveyor.

3862. Have you had any experience in the field of banking, or do you approach this problem primarily from the standpoint of a student?—Merely as a student of banking practice.

3863. We have asked the witnesses that have appeared before this Commission to prepare memoranda, which would enable us in advance to get a summary of their ideas, but we are not planning, in most cases, to publish these memoranda. Our evidence is taking on such enormous proportions, much larger than that of any of the previous Commissions, that I think it will be practically impossible to publish these memoranda; although, possibly, one
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or two of them may be published. The testimony of the witnesses will be published, and, of course, we will have the use of the memoranda for reference. The witness, of course, has the use of his memorandum in giving his testimony.—Do I take it you are going to examine me de novo? I have fully replied to these ten questions and would like to consider these things. I would rather have time to answer any fresh questions put to me. I like to think over these matters. That is why I appreciated so much these ten questions put to me by the Government in writing, giving me time in which to answer them. Personally, I don't know why you should go outside the province of these questions. I can treat them seriatim.

3864. We don't wish to limit you in your testimony to your memorandum, and we don't wish to make you depart from your memorandum unless you wish to. What we want is your message, and if you prefer to give that message to us by giving the answers now that you have given in your memorandum, and then let us question you concerning them, that can be done—I would like to do that, to be examined on the answers that I have given to these questions. I am rather a volatile man in most cases, and I don't like to be brought into contentious matters. There is nothing contentious in the questions put to me, and I have given straightforward answers to them. If there is anything there that you wish to cross-examine me upon, I will be prepared to answer. If you wish to ask me any additional questions, may I take the liberty to reply to them in writing?

3865. In every case previously we have questioned the witness on the various phases of the problem, and permitted him to use his memorandum as little or as much as he wished to. The memorandum was not asked for the purpose of publication, but for the purpose of giving us a basis for discussion.—That is quite true. There is no question of publication. The letter to me distinctly says they wanted a short memorandum practically in reply to these questions. So I took it. As I say, I am purely a student of these matters, and I have concentrated for seven or eight days on these particular questions.

3866. Suppose we do this—we want to meet your desires in the matter: we simply ask you the questions as they appear here, and you may read your answers thereto, and then I will question you to the extent that we think desirable on your answers as you give them.—That will be the most satisfactory procedure.

3867. Are you in favour of South Africa returning to the gold standard 1st July, 1923, without any restrictions, and if so, why?—I have embodied the next question also. I have answered the two. My answer is in the affirmative, and I say that we should never have departed from the gold standard in this country. I answer that rather fully.

3868. Then just read your answer for us, please?—"When the Union suspended the gold standard, British bankers and financiers obtained the sole right to buy, sell, and deal in Union gold. The owners of Union gold were not allowed to sell their product in the open market nor were Union bankers allowed to ship gold direct to countries in which it was required to pay for the imports of their customers. At the beginning of 1920, the suspension of the gold standard was confirmed by the Union Government, and the power to buy, sell, deal in, and control the export of Union gold was granted to the South African Reserve Bank. In spite of these powers being vested in a bank, which should have worked in the interests of the Union, the British banks still enjoy the same powers as they previously enjoyed. In 1920 one ounce of gold, i.e. four gold sovereigns, was equal to 19 American dollars, but the Union people were compelled to use £4 in convertible money, which was only equal to thirteen American dollars. It follows that Union importers could have purchased 50 per cent. more with the same amount of money if Union banks had been allowed to send gold direct to America. It also follows that the South African Reserve Bank is entirely responsible for this loss, since the bank was established in 1920.
The Reserve Bank or the private banks of the Union could have acquired the entire output of Union gold at standard price without loss to the gold mining companies, as the following equation will show:

In 1920, 1 ounce of gold = 4 gold sovereigns = £6 British money (in round figures). The gold mining companies admit that 80 per cent. of the money realized for the gold is required to pay salaries, wages, stores, and dividends in South Africa. This being so, the Union banks need only to have sold 20 per cent. of the gold in London, and to have given the mining companies British bank credit at £6 per ounce. If this had happened, there would have been quite sufficient gold in the Union to pay for imports from foreign countries at the exchange rate £4 = 19 American dollars. In neglecting this opportunity, the private bankers of the Union share the blame with the Reserve Bank. The outcome is that British bankers have been able to buy about £30,000,000 worth of Union gold, for which there has been no corresponding importation of goods into the Union. In these circumstances, I submit that the gold standard should be restored in the Union without delay and independently of Great Britain.

We are not primarily concerned here with history, so I am going to ask you questions with reference to policy and not with reference to this historical development, for we have not the time to go into that.—Yes. The letter from the Government asked me to support my contentions.

Yes, that will go into the evidence, but with the limited time we have for questioning, I am afraid it will not be possible to go into much discussion on the historical side. The next question I suppose you can answer very quickly: Are you in favour of adopting the policy of a gradual return to the gold standard, such, for example, as was proposed in England in the year 1819?—I have answered that rather hurriedly: "We are living in the year 1924, and open-minded financiers and honest bankers should be taught that a banker cannot honestly buy and sell gold, that it is merely an exchange of one sort of money for another.

What do you mean by "buy and sell"?—The law relating to the Reserve Bank distinctly says "buy and sell." If a man can buy it, he can do with it as he likes.

When you speak of buying, you mean giving money to obtain the article; when you speak of selling, you mean giving up the article and receiving money or the right to demand money for it?—I discriminate between the ordinary dealing in commodities and the selling of gold, for this reason, that gold is money. I advance this argument: if a bank buys gold and then sells it, the money for which the gold is exchanged would be virtually useless. I look upon this as an exchange of two varieties of money, and not a sale.

That is to a considerable extent a question of your definition of buying and selling, and a question of your definition of money, is it not? Taking the usual use of the words "buying and selling," and taking the more common use of the term "money," every transaction that a bank or an individual makes where he gives money for an article, or where he receives money for an article, is a transaction of purchase and sale; and as we ordinarily use the term "money," we don't make it synonymous with gold?—I take exception to this selling. It is my own personal view. I take exception to buying and selling money. I look upon it merely as an exchange of one sort for another more convenient form. Gold bullion is of no use to the owner, in that he cannot pay wages in gold bullion. Therefore, he exchanges it for a smaller and more suitable form of money. To my mind it is really a loan. He lends the money to the bank, and they lend him credit. There is no interest charged either way.

Take the British market. Gold is sold there at auction. Even when they were on an absolutely gold basis the price varied between £3. 1s. 9d. and £3. 17s. 10½d. according to the need at the time, and there was a regular active market in gold.
the Indian market, although they were on a form of the gold standard for many years, gold bars and sovereigns were bought and sold, and many people would buy bars for jewellery purposes, or for hoarding. Gold performed a good many commodity services as well as money services?—Yes.

3875. Where you have an active market of that kind, using ordinary common parlance, we speak of that as buying and selling, and we speak of uses of gold bars that are certainly not monetary uses. The United States has been on a gold standard most of the time, but very few people there would speak of gold bars as money. They know they are readily convertible into money, but you don't pass them from hand to hand in circulation. You don't treat them as you treat the thing that you commonly call money. People generally think of gold bars as a commodity, with a pretty fixed price, readily commutable into money, but really not money?—That is purely a definition of money. At the present day gold is international money because it has a claim to the currency practically of any country in the world to-day. It has an absolute fixed claim in countries that are on the gold standard, and, therefore, it is money. I treat gold as international money, or a medium of exchange, to amplify my meaning of the word money. There is no such thing as international money. We know that; but an international medium of exchange.

3876. How do you define money?—I define money as a medium of exchange.

3877. There are a great many media of exchange that are not money, are there not?—I suppose there may be. All goods are a medium of exchange and barter.

3878. Cheques—do you call cheques money?—I call cheques a currency system.

3879. Are they money?—If the maker is good, yes.

3880. You would call cheques money?—I would call them a medium of exchange.

3881. And would you call a promissory note, payable ninety days hence?—Again that depends on the maker.

3882. If he is good?—It is part of the currency system.

3883. You would call that money?—Yes, I would. It is not legal tender money, of course. There is a distinction between legal tender money and ordinary money, as the public know money.

3884. I don't care about going into a discussion of this. I just wanted to find out what your idea was. Have you finished your reply?—No. "Gold is deposited in banks by mining companies, on behalf of all those to whom the company owes money. The bankers' credit slips or bank-notes are acknowledgments that the banker has borrowed money. When the gold standard is in operation, this money constitutes a claim to gold. To pay those who have given goods and services to win gold by means of money, which is not as good as gold, is to rob them (the producers of international money) of part of their money. It is the power to buy, sell, and deal in gold which has led to the practice of suspending the gold standard without just cause or reason. In these circumstances, I submit that the year 1920 has afforded sufficient proof of the abuse of gold by private bankers, and demands 1924 remedies."

3885. What would be the effect of South Africa returning to the gold standard independently of Great Britain on a number of items? The first one is prices, then wages, production, export trade, import trade, and, finally, the Union Government finances?—I have answered them all separately. Firstly, on prices, the effect would be that prices of imported goods would be reduced by the amount of the premium on gold—vide answers to Nos. 2 and 1.

3886. Have you made any study of price index numbers in this country as compared with Europe?—No, I have not. What I am aiming at there is, the exchange would be remedied.

3887. The British price index number, covering a great variety of articles and expressed in terms of percentages, shows that British prices to-day are about 67 or 68 per cent. higher than
they were in 1913. The price level here for wholesale prices, covering 188 odd commodities, a great variety of commodities of all kinds, and reduced to a percentage basis, shows that the price level here is about 33 per cent. higher than it was in 1913. So, from the standpoint of the value of the monetary unit, as expressed in its purchasing power—and that is what really expresses the value more than any other thing—the value of the pound South African to-day stands to the value of the pound sterling at about the ratio of 107 to 133, using 1913 as a basis; but the exchange rate shows that the pound South African is worth only about 1034 per cent. of the pound sterling, which would seem to show that prices in this country have not only been deflated to the gold-standard level, but have been deflated far below. And if you take the price level in America, which is on the gold standard, and compare it with the price level there in 1913, it is about 150 now. So that if the purchasing power of gold is expressed by the American price level, where there is a free market for gold, and if this country should return to the gold basis and should find the same expression in its price level, it would appear on the surface as if you would have to increase your price level to 150 or so because you have rather overdone this job of deflation?—There we are getting on to the contentious matter of inflation and deflation. I mean that there would be a reduction in the price of our imports by the abolition of the exchange rate. We are paying an unnecessarily high figure to bankers for exchange rates on account of the fact that we are off the gold standard. My answer is this: the effect would be that the price of imported goods would be reduced by the amount of the premium on gold. I stick to that statement. I don't want to go into the dangerous and contentious matter of inflation and deflation. I hold very strong views there, but I don't think they are within the province of this discussion.

3888. What is your judgment on the question of wages?—Wages are governed by the laws of supply and demand. Both wages and prices are influenced by the value of the money in which they are paid. The value of money is ultimately governed by the value of the merchandise of all kinds. Both wages and prices are governed by the laws of supply and demand. Both wages and prices are influenced by the value of the money in which they are paid. The value of money is ultimately governed by the value of the merchandise of all kinds. Both wages and prices are governed by the laws of supply and demand. Both wages and prices are influenced by the value of the money in which they are paid. The value of money is ultimately governed by the value of the merchandise of all kinds.

3889. What do you mean by "the value of money is determined by its foreign exchange value"? If I should say here the value of money is determined by its foreign exchange value, and if I should say the value of sterling is determined by its exchange value in dollars, and the value of dollars is determined by its exchange value in francs, and so on, I would not get very far in giving an explanation of what determines the value of money, would I? You just keep on pushing it farther and farther away?—The message I mean to convey is this: We will say a workman in receipt of a certain number of dollars as wages in America would know exactly what that means in South Africa if it were on the gold standard. He would know the fixed relationship between the dollar and the pound in South Africa if it were on the gold standard.

3890. The average labouring man would not know how much the value of the dollar was in any foreign currency. He would know, roughly speaking, how much the dollar would buy in America. He would say the value of the dollar to him was determined by the cost of living, by what it would buy?—I say this, the return to an effective gold standard in the Union would fix the foreign exchange value of the Union value. That is quite a well-known expression: "the exchange value of money." After all, it has fluctuated very much.

3891. You mean that if you return to the gold standard in this country, you would have a fixed par of exchange with other countries that are on the gold standard?—Yes.

3892. And you would have a fluctuating par of exchange with all countries that are not on the gold standard?—In exactly the same way as America has to-day.
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3893. What is your reply with regard to production?—The restoration of an effective gold standard and free gold market can be made to prevent the accumulation of Union credit balances in London, as well as to transfer the balances which have already accumulated.

3894. Why prevent the accumulation? We have had a number of bankers before us. We have asked them why they keep such large balances in London. They have replied because they could not safely and profitably employ them here to as good advantage as they can abroad. One reason for that was the lack of business opportunities, and another was the insecurity of the situation here as evidenced by the large number of failures in recent years, the lack of employment, and the uncertainties of trade here generally. We would like to know why, if you stabilize on a gold basis, you are going to increase the opportunities here for the safe and profitable employment of those funds?—Are you putting another question to me?

3895. No, I am trying to find what you are driving at?—What I mean to convey is, if these balances were in the Union, instead of being in London, the money would be plentiful. These would be quite enough money to meet all demands for money; and, probably, the tendency would be to reduce the rate of interest.

3896. The bankers claim that there is enough money here now to meet all demands that they can meet safely at a reasonable rate of interest?—I disagree with that. I have plenty of practical experience to know that money is very tight in this country.

3897. The Reserve Bank has very large funds, and the other banks are not rediscounting with it. The other banks have big balances abroad that they are not using here. They have balances in London that they are not finding it profitable to bring home?—They are probably finding difficulties in the way of bringing those balances home. Under the Act there are obvious difficulties.

3898. What is the difficulty of bringing them home now?—As soon as those balances come home, first of all the banks have to make a deposit with the Reserve Bank of 10 per cent. of their demand liabilities.

3899. If those balances come back in the form of cash, that is not in the form of deposits at all. As far as the 10 per cent. is concerned, they kept more than 10 per cent. before the war?—It is obligatory on them to do so now. Under the Banking Act of 1920, the banks have an obligation to keep 10 per cent. reserves against demand liabilities. We know that the private banks prior to 1920 on an average kept a total of between 15 and 20 per cent. of their liabilities in legal tender. I admit that. But I say this places a difficulty to-day in their way, in having the gold standard in operation in this country; there are difficulties in the way of transferring credits from London to South Africa.

3900. If this money is brought back it is not brought back in the form of deposits? The banks have so much as deposits. They have transferred to the other side part of their capital and part of their deposits, and they are keeping a legal reserve here now. If this were brought back, how would it increase the deposits in the banks here? It would be their own money that they are bringing back?—I hold it is the people's money.

3901. But how would it increase the banks' deposits?—I think we want to go back to the previous question on this. My evidence is here in the form of a connected chain of evidence. I say that the credit balances have accumulated in London, and that those obviously belong to citizens of the Union, and there are unnecessary difficulties placed in the way of making these credits in this country. If the credits do come into this country, they will immediately be demand liabilities on the banks.

3902. That is what I am not quite clear on. Here are people in South Africa to-day that have deposits in the banks, who can draw these deposits out when they wish to. The liability side of the balance-sheet shows those deposits. Now, on the asset side of the banks' balance-sheet, are large sums of money kept in
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England. I don’t see how, if those funds that are kept in London, which are on the asset side of the balance-sheet, be brought back here, that that increases the amount of the deposits to the account of anybody in South Africa. I think it is an asset over there and not a liability, and would be an asset here. It is an asset against these deposit liabilities.—Let us take an example: A merchant exports half a million pounds worth of wool. It is sold in London. I don’t know what particular bank he uses. He has a credit there, anyhow, in London. It may be with the Standard Bank in London.

3903. And he has sold his bill against the wool here, and had the amount placed to his credit?—He may not have done so.

3904. Your idea is that he sells the wool in London, and that he, as an individual, receives his payment in London, and as an individual holds it there. Then it would not appear in the bank’s balance here at all as a deposit?—No; and immediately he brings it to this country it must appear in a bank’s balance-sheet in this country—if he transfers his credit from a London bank to any local bank; and as soon at is appears as a credit balance it becomes a demand liability on one of the banks.

3905. What is your reply with regard to the export trade?—I simply answer that an increase in primary production, resulting from the accumulation of money in the Union, would result in an increase in the export trade. Raw materials are what I mean. I have linked the three questions together. I say if money is plentiful here, industries get a good fillip, and it results in a greater amount of primary production, which increases our exports.

3906. You think that the restoration of the gold standard would mean that money would be more plentiful, and the increasing amount of money would stimulate export trade?—It would stimulate primary production, and most of that primary production does go out.

3907. How about import trade?—An increase in manufacture will tend to decrease imports into the Union. I have said there on production generally, “the circulation of this money would stimulate primary production and manufacture.” Local manufactures would decrease imports.

3908. Your idea is, it would increase exports and decrease imports?—Yes.

3909. If you do that, aren’t you becoming progressively worse off? You would be continually giving to other people more than you were receiving back. Soon you would become impoverished?—I have answered that in the next question. I hold that gold is such a valuable asset that we don’t need anything in exchange.

3910. Now, as to the Union Government finances?—“If the control of the export of Union gold is vested in the State bank which is to be established by the Union Government, the greater part of the gold output will remain in the custody of the State bank. And—

(1) The Government will be able to borrow credit which is a claim to gold from its own citizens;
(2) the State bank will be able to create credit and lend same to the citizens, as well as to the Union Government;
(3) even after providing a gold reserve to meet all demands for conversion under both the above heads, the gold reserve will accumulate in the Union State bank. The result will be that the bank will be able to make gold loans to other countries, just as foreign banks are now doing. The effect of these loans would be to set off or counteract the national debt of the Union.”

3910a. You believe the bulk of the Union’s gold production should be kept in the State bank?—So long as we pay for our imports by means of other exports, yes.

3911. South Africa produces about £40,000,000 of gold a year?—Yes.

3912. You would just pile that up each year here in a State bank?—Oh, no. I have said clearly we would lend to the other
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banks. Germany has had a gold loan. Our bank might have advanced some of that gold to Germany. They want it for some specific purpose.

3913. If you lend that gold, you would be lending at the rate of interest that applies in other countries. The rate of interest here is higher than it is in many of the older countries?—The point I want clearly to make is that we would become a lending country. The rate of interest would be what the other people are prepared to pay. At the present time, my contention is that we are not being paid for certain gold.

3914. At the present time you are paying for your imports largely by your exports of gold. If you keep the gold here you would not be able to get the corresponding imports?—I have made that quite clear, after paying for all imports, still gold would accumulate in this country more than we require to maintain an effective gold standard; and that could be lent.

3915. You would lend that to all the countries in the world?—With the same discretion as other bankers use.

3916. Your idea is to profit by this interest?—Certainly.

3917. That would pay for the interest on your public debt?—In time it would set off the public debt. It would be practically a set-off to the public debt.

3918. You think this plan would make this country very quickly a creditor country?—If I may be allowed to express the opinion, we are a creditor country to-day, but we are not getting the advantage of our credit.

3919. What is your evidence that you are a creditor country?—The excess of exports over imports.

3920. That excess is interpreted by many people to represent the means by which you are paying for certain invisible imports, and the manner by which you are paying the interest and amortisation of your foreign debt?—I have made reasonable allowance for the invisible imports into this country that you mention. Somebody—a very reliable authority, gave me figures to go on two years ago, figures between 15 and 18 millions. I have allowed for that. I still consider, since the outbreak of the great war, that this country has exported 30 millions of gold for which there has been no payment.

3921. And why are you exporting more than you import right along now?—I say that is folly, because we ought to have kept the gold here. My answer is, we are foolish. We ought to have kept the gold instead of exporting it, and allowing people to buy and sell and deal in gold.

3922. There is no reason, in your judgment, for doing that. You, as a country, are practically giving it away?—To my mind it is virtually giving it away, if there is no corresponding import.

3923. If South Africa returned to the gold standard independently of Great Britain, would the premium on South African money tend to cause the export of capital from South Africa, and, conversely, hinder capital from flowing to South Africa?—The question is vague. I look upon this question as a threat which has been held over the heads of the people of this country by a prominent Union banker, and shall answer, in the first instance, by defining the gold standard. In terms of the gold standard, all representative forms of bank money constitute a claim to gold, and, conversely, gold constitutes a claim to a fixed amount of currency (bank credit or paper money) in all countries when the gold standard is in operation. This being so, a 'capitalist' or money-lender likes to know that he can claim repayment of his money in gold, because gold can be converted to purchasing power in practically every country in the world. When the money-lenders' investments only constituted a claim to German marks (in 1923), they were repaid with worthless paper.'

3924. In formulating this question, there was no idea of limiting the term 'capital' to money.?—Then I have answered it in that respect already. This clearly implied to me that it meant
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money. The ordinary meaning of the word "capital" refers to the control of purchasing power, which means money. A capitalist is a man who controls capital. The commonest meaning of the word capital is "produced means of production."

3925. Another, not quite so common, is, the value of goods of all kinds expressed in terms of the value of the money unit?—I admit that, but, as I say, I have confined myself to one meaning of capital here. They have implied it here with the premium on South African money.

3926. I don't think that the word "capital" is used as synonymous with money there?—It struck me that that was what they were aiming at. I think that is answered in the matter of exports and imports.

3927. 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?—"The exchange rates are supposed to be governed by the balance of trade. If the trade is balanced, as suggested in the answer to the preceding question, the exchange should be nominal, as there will be no need to transfer credit from London to the Union. When this happens, the total credit due to Union exporters by British banks will be expunged by the total money due to British banks by Union importers. If, however, British bankers attempt to charge excessive exchange, it will be in the interest of the Union to clear all its foreign trade through some European country which is on the gold standard." My clear meaning is that our exports would balance our imports. If we keep sufficient gold in this country to do so, then there would be no exchange rate. It would be nominal as it was before the war.

3928. Even if sterling stays on a paper basis?—Even if sterling stays on a paper basis, that is my contention.

3929. You would have a stable exchange with sterling?—There would be no exchange at all. The one pays for the other.

3930. When a person is buying goods in England, he has to buy with the pound sterling in England?—Yes.

3931. If the pound sterling is very greatly depreciated in terms of the South African pound, you would think that less South African pounds would be needed to buy any given quantity of pounds sterling, and that that would represent a discount in exchange; that is, the South African pound would be more valuable than the British pound, and that would express itself in the exchange rate. I don't see how you would get parity in exchange if sterling were worth a great deal less than pounds South African?—My contention is this: You get the British money, and that British money is consumed in Great Britain to pay for our imports. I go on the assumption that the balance of trade does affect the exchange rate.

3932. Doesn't the exchange rate affect the balance of trade also? Certainly, if your exchange goes to an increasing discount, so that you can buy pounds sterling for a decreasing number of pounds in South Africa, that stimulates imports and inhibits or retards exports; and any fluctuation in exchange itself tends to influence the relative movements of exports and imports, and tends to itself affect the balance of payments?—There, again, we are getting on to that contentious matter of inflation and deflation. If you inflate the currency of one country, it does have that tendency. But in this particular question you asked what would be the effect on the exchange rates between South Africa and Britain. My answer to this particular question is, I am going on the assumption that the balance of trade affects the exchange rates, especially where the gold standard is suspended. It does not so much when the gold standard is not suspended. I wish to convey this meaning that exports and imports are equal, that there is no balance of trade, and that there need not be any great fluctuation of exchange between these two particular countries.

3933. That is, if England depreciates her pound so that it is worth, say, 3 dollars gold, and your pound here is worth 4.87 dollars gold, as measured in American exchange, and if your
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exports and imports' balance, you will have a par of exchange here, in your judgment, with Great Britain?—I say yes, because the money we get in payment of our exports is the same currency that will be consumed in paying for our imports.

3934. 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?—I have said, in view of my answers to previous questions, this question seems redundant. I shall, however, make some remarks. "If it could be proved that a slight delay in the return to the gold standard in the Union would be of benefit to the people of Great Britain, the Union Government might consider such. As, however, the suspension of the gold standard is primarily in the interest of private bankers and financiers who 'deal' in gold, and as the bankers always pass exchange on to their customers, or victims, the sooner the gold basis is resumed the better. Perhaps the Union's good example will be followed in Great Britain. In lending gold to Germany (at 7 per cent. interest), the British bankers clearly show that they consider profits before people. Governments should consider people before bankers." The question is really redundant in view of my previous answers.

3935. If South Africa should return to the gold basis 1st July, 1925, independently of Great Britain, what special measures, if any, should be taken to enable her to maintain gold payments?—My answer to that is, "The constantly increasing favourable balance of trade of the Union would indicate that there will soon be no need to export any gold in exchange for imports. To prevent the export of Union gold without a corresponding importation of goods, it will be necessary to grant a State bank the sole right to control the export of Union gold, a right which is now vested in the Reserve Bank. If some of the surplus Union gold is invested in quick-maturing British Government securities, these securities can be realized in London, and the resulting British money can be used in place of gold payments when necessary. This provision would apply even after the gold standard is restored in Great Britain." I am simply giving my remedy. If there are no gold payments in England, then they are not on the gold standard. We can keep our gold in this country.

3936. What functions should the Reserve Bank perform in this connexion?—I gather from what you have said heretofore that your idea is that there should be a State bank here promptly?—Yes.

3937. We would like to ask then what relationship should exist between the Reserve Bank and the State bank?—My answer to that is given at considerable length. The Reserve Bank was never necessary in this country. I am an opponent of central banking.

3938. The State bank would be a central bank, wouldn't it?—Not necessarily.

3939. It is your idea that the State bank you are recommending should take the place of the Reserve Bank, and the Reserve Bank should be done away with, or should the State bank operate along with the Reserve Bank?—I will answer that by reading this: "The outcome of suspending the gold standard in any country is that gold becomes demonetized, i.e. gold coin ceases to circulate as money for the people, although gold still remains international money or medium through which foreign trade is balanced. When the gold standard is suspended, the export of gold bullion and coin is vested in the bankers of the country, or in a reserve bank, which is a bankers' bank. In other words, the bankers of the country are granted a monopoly to use gold as money, while the people are compelled to use paper money, which is not convertible to gold. Even though the people are allowed to use gold coin, they are prohibited from sending or taking it out of the country. Moreover, it is a criminal offence for the people to sell gold coin to one another for more than its face value in terms of the paper money in use. This provision completes the
bankers' monopoly of gold. The advantage to bankers or to trusts
which deal in gold, is obvious. In 1920, the American Trust was
able to buy dollar bills at the rate of 475 per £100 gold (i.e. about
20 ounces), and to sell the bills to Union importers at the rate of
320 dollars per £100 in convertible sterling (see answer to questions
1 and 2). It is, of course, better for the bankers of a country,
if the control of gold is centralized in one institution, even when
the gold standard is in operation. For this reason, bankers
and financiers conceived and promoted the central banking system,
with the concurrence and assistance of politicians." This is a
strong attack on the central bank system, and I want it on record.

Our problem is, should this country return to the gold
standard independently of Great Britain 1st July next? That
is our only problem. We are concerned with these other questions
only in so far as they are collateral to that problem. And in that
connexion, of course, the question of what should be the proper
functions of the Reserve Bank, or of a new State bank if it is to be
established, in connexion with the restoration of the gold
standard and its maintenance in the future is particularly appro­
priate—"During the great war the bankers had no central bank
in the Union, but the South African Reserve Bank was established
(in terms of the Union Currency and Banking Act) early in 1920.
It was later in the same year that gold money became so much more
valuable in foreign trade than the 'inconvertible' money, which
the people of the Union were compelled to use. The working
capital for the South African Reserve Bank was collected from
the people of the Union. The people deposited gold coin in the private
banks, but the bankers were prohibited from paying out gold coin.
The result is that the people used 'inconvertible' Reserve Bank
notes as money, but the Reserve Bank owes the people ten
million pounds in payment for gold coin which it uses as working
capital. The people are not the sole owners of the Reserve Bank,
because bankers and financiers were allowed to subscribe one million
pounds as nominal, but totally unnecessary capital. The result
is that stockholders are entitled to a voice in the control of the
bank, and to 40 per cent. of the accumulated profit, or reserve
fund, as well as to an annual dividend of 10 per cent. I wish to
point out that the stockholders should not be entitled to more than
9 per cent. of the accumulated profits. It is true that the expert
who advised the Union Government only expected that the Reserve
Bank would collect 5 million pounds of gold coin. Even if this
estimate had proved correct, the stockholders would only be entitled
to about 10 per cent. of the accumulated profit. The Reserve Bank
is entitled to issue 24 times as much in notes as it holds gold
in reserve for the conversion of its notes, provided the notes
issued in excess of the gold reserve are issued against the security
of trade bills and commercial paper, i.e. merchandise, and the
Union Government guarantees the notes issued by the bank. It
follows that private bankers can deposit £100 of gold in the Reserve
Bank and obtain the use of £250 of money for their creditors
and the people. The desire to inflate gold up to 24 times its value
in order to obtain money for the people, was the real object of
establishing the Reserve Bank. The privilege can be used in two
ways by the private bankers: (1) In times of stress private banks
repledge trade bills and commercial paper in order to draw a
supply of Reserve Bank notes. An instance of this practice was
at hand in June, 1923. (2) In normal times private bankers can
deposit gold or repledge trade bills and commercial paper for the
purpose of establishing a credit in the Reserve Bank. Against such
credit balances, the private banks are legally permitted to create
ten times as much credit for the public as in notes as it holds gold
in reserve. These pacts of the Union Government make it quite clear that the Reserve Bank was established
to protect the private banks against their creditors, and to pander
to the greed of bankers. The fact that Reserve Bank notes are
guaranteed by the Union Government shows clearly that both
practices are made possible by using the credit sources of the
people of the Union. The Union Government freely presented the
South African Reserve Bank with 10 millions of gold coin, which
belongs to the people, and the coin is now worth £25,000,000 to.
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the bankers of the Union, in terms of the banking reform act
of 1920, but the Union Government now borrows money from the
Reserve Bank. When the private bankers use any or all of the
excess notes which the Reserve Bank is permitted to issue, the
Union Government automatically advances money against mer-
chandise, because the merchandise is security for the notes which
the Government has guaranteed. It is now quite clear that the
Union Government has become a money-lender, and will remain a
lender of money to bankers while the Reserve Bank is in existence.
The strongest private bank in the Union does not use the Reserve
Bank, simply because it keeps an ample cash reserve. The other
banks could be independent of the State if they did the same.
It follows that the Reserve Bank is not necessary. In normal
times banking trusts are able to meet the demand of their
customers for conversion of credit to gold, by keeping a gold
reserve of 40 per cent. in their central banks, simply because £4
gold can be stretched into £10, which is as good as gold for the
people. It follows that central banking diminishes the gold reserve
of a country and precipitates the maintenance of an effective gold
standard. The strongest private bank in the Union would be more certain if the Reserve Bank
were abolished, because the private bankers would not dare to
sell so much of the gold belonging to their customers. Owing to
the favourable balance of trade, bank credit must accumulate
in the Union, but, while the control of the export of gold is
vested in the Reserve Bank, there is no corresponding increase in the
gold reserves of the Union. In all these circumstances, I
submit that the Reserve Bank has failed to function in the interests
of the people, and that State-assisted or guaranteed central bank-
ing should be abolished in the Union. I affirm that the South
African Reserve Bank should be converted into a Union State bank,
with as little delay as possible. I say that the Reserve Bank
should be converted into a State bank. I would not go so far as
to say at this stage whether it should not hold reserves for the
private banks.

3941. Would you care to express any opinion as to the character
of the State bank that you are recommending?—I should make it
a model on the Reserve Bank line, holding a very heavy reserve
of gold. We are peculiarly situated in this country.

3942. Why do you call it a State bank?—It would be working
entirely in the interests of the country, and for the profits of the
country.

3943. Would it be owned and managed by the State?—Yes, as
any other bank is, for the State.

3944. Would it be lending money to the State?—Certainly,
within reason, within safety lines, as long as it always had the
gold reserve.

3945. And at what rate of interest?—Very low at any rate. I
don't propose to go into the rates now.

3946. Do you think at lower rates than the Government can
obtain now?—That would be governed by circumstances. Let me
qualify this statement to a certain extent. I am not averse to
the State borrowing money from its own citizens, but I am very much
averse to the State borrowing money outside its own territory.

3947. Do you think you would be able to discontinue borrowing
abroad, and fund the foreign debt entirely into a domestic debt by
means of this State bank?—That is virtually what would happen.
I think I have answered that question on the effect of the Union
Government's finances, and I show the means by which it can be
done. That has been one of my great aims. I know very well in
official circles I am looked upon as an inflationist. I am not
altogether. I know the meaning of inflation and I know the
disadvantages of inflation; and I also know the disadvantages of
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deflation. But, as I say, that is a contentious matter. I am not an out-and-out inflationist. I have had so much correspondence both with the previous Government and this Government, that they probably look upon me as an out-and-out inflationist; and I am not.

3948. That covers these ten questions and brings in all the material you have in your memorandum. I have not any more questions to ask, but if you have any other point you would like to make, we would be glad to have it?—Nothing. I don’t care to go outside of that with this Commission. I have made certain recommendations to the Government which they have promised to investigate. They have told me that this is an official investigation. I am not in a position to reassert those here, but I shall put them before the Government in due course.

TUESDAY, 30TH DECEMBER, 1924.

Mr. Cecil Sydney Richards (examined).

3949. (Professor Kemmerer.) What is your present position?—Lecturer in Economics in the Department of Commerce, Natal Technical College, Durban.

3950. What special training have you had in the field of economics?—I am a Bachelor of Commerce of the University of Durham, England. During my university career I specialized in economics. I obtained four distinctions in my inter. examination. In my second year I obtained distinctions in banking and currency, international trade and the foreign exchanges, and I was the only student—if I may say so—to obtain a distinction in economics in the final examination. I have specialized since I came out here on currency questions, and in July last, at Capetown, I read a paper of original research entitled "The Monetary History of South Africa since Union" before Section F of the South African Association for the Advancement of Science. In October last I also contributed a series of articles to the Press on "Unemployment and Credit," bearing directly on the present monetary position. In addition, I have had two years' business experience with a large firm of chartered accountants in England.

3950a. How long have you been in South Africa?—Two years on 3rd March next.

3950b. We received some days ago your memorandum covering an address which you gave recently on the currency situation, and we have read it with much interest. It was largely as the result of that that we asked that you be sent for to appear as a witness. In that article you handle one phase of the subject that no one has brought before this Commission to any extent. We would like to have you devote part of your testimony to that phase—that is, the gold standard in South Africa prior to the war. We hear a great deal from various witnesses as to the probabilities of the breakdown of the gold standard if an attempt is made to reconstitute it independently of Great Britain. And one naturally asks what new forces have come into the situation now that make the maintenance of the gold standard here so difficult that were not here in the pre-war days. We wish you to give us, in your own language, a general statement of the gold standard as it existed in this country and as it functioned prior to the war?—First of all, I should like to say I am speaking purely from memory, and without having had any opportunity of referring to my papers. I have not looked at my Capetown paper for about two months at least, and I must quote from it. The question of the existence of the gold standard in South Africa before Union I have dealt with in this first paragraph here very fully. Prior to Union, in 1910, the currency of each separate province of South Africa was based, so far as I have been able to ascertain, on gold, and it had been so based for more than two generations. Each currency was legal tender in the separate provinces, and was convertible into gold. Unfortunately, because
of the existence of separate Governments in these provinces, there was no uniformity in the currency systems. The banking laws were rather at variance one with the other, and consequently at Union there was no uniform banking system on which the Act of Union could operate. Large quantities of coins, for instance, were issued by the old Transvaal mint at Pretoria.

3951. (Dr. Vissering.) Were they Kruger coins?—Yes, Kruger coins, and they were still in circulation generally in both the coast provinces, Cape Colony and Natal, although they were legally current only in the colonies of the Transvaal and the Orange River; the coins issued by the Imperial Mint from London being legal tender in the Cape Colony and Natal. Very frequently, however, in the course of trade these coins found their way to the coastal colonies. They caused a certain amount of inconvenience, because bankers made small charges for collecting them and sending them back to where they were legal tender.

3952. Why were they sending them back to the other provinces? They were admitted in circulation, even if they were not legal tender?—I couldn't tell you that. That I got from an article written by a Cape banker which appeared in one of the numbers of The Bankers' Journal for 1905. So far as I could, I verified it by actually asking bankers living in Durban, and they told me the information was substantially correct. By Transvaal Mint Law No. 14 of 1891, the weight and fineness of the weight and fineness of the coins issued by the Pretoria Mint were the same as the British currency of those days, but the remedy allowance was slightly different. I mention here just exactly what the difference was. During its existence, from 1881 to 1900—it was expropriated in 1908 by the Transvaal Government—the Pretoria Mint issued coins of varying number and value; and I give the figures here. They are given in much greater detail in the "Official Year Book of the Union."

No British sterling was ever issued from the Pretoria Mint.

3953. (Professor Kemmerer.) British sterling can only be issued from a branch of the Royal Mint. I understand?—Yes, that is so. The principal point at issue, I think, with reference to the gold standard prior to Union is the question of the note issue. That is the part to which I pay a great deal of attention. Prior to 1910, the following laws for the control of banking were in existence: There was Transvaal Law No. 2 of 1893; there was the Orange Free State Ordinance No. 20 of 1902, and the Cape Colony Act, No. 6 of 1891. I verified all these by looking up the actual laws themselves in the old statutes. I will now give you a resume of the regulations. I discovered incidentally that in Natal there was no general law whatever controlling the issue of notes. I have been able to find no trace whatever of one. The position in the Transvaal was something like this. The total amount of bank-notes circulated by any bank was not to exceed its paid-up capital, and no bank-note was to be issued for an amount less than £1 sterling. Every bank issuing bank-notes had to keep in the Republic a reserve in legal tender coin equal to thirty-three and one-third per cent. of the total value of all bank-notes in circulation at the time.

3954. (Dr. Vissering.) Did legal tender coin include silver as well as gold?—Yes, but under the Mint Law of the South African Republic gold coin could be demanded for redundant silver coin.

3955. (Professor Kemmerer.) This 33½ per cent. was against notes, but there was no legal requirement against deposits?—None at all. Notes issued under the above regulations were not to be accepted in payment in the Government offices. That seemed to me to be rather an admission by the Government of the lack of value of their own regulations as regards ability to control the note issue. Provisions were also made for the inspection of records, and to see that these regulations were being complied with. In the Free State, bank-notes also were issued against a reserve of 33½ per cent. in gold: and in both provinces, notes were convertible into gold coin on demand at the head office of the issuing bank. In Natal, as I have said, there was no general
law controlling the issue of bank-notes; but I found a reference in one of the Bankers’ Journals to the effect that the Natal Bank had a note circulation, the authorized amount of which was equal to the paid-up capital, and specie, equal to one-third of the notes, had to be held at the bank, so that that was substantially the same as in the other provinces, although it would not apply generally in Natal. The same provision existed in the Free State and in the Transvaal where they had general laws. The most important Bank Act, however, was the Cape Bank Act of 1891. That was passed as a result of a very bad time in Cape Colony. I think there were no less than three banks that failed in 1881. From that time onwards there had been a great commercial depression. The Commercial Bank had failed, the Cape of Good Hope Bank had failed, and the Union Bank had failed; consequently the regulations which were issued in the Cape Colony for the control of note issues were extremely stringent. Bank-notes could be issued only against Government securities, and these securities had to be deposited with and transferred to the Government Treasurer, and he then issued notes of different denominations. I cannot be certain, but I think £1 was the smallest denomination allowed—equal in amount to the par value of the securities deposited. No bank was allowed to issue notes to an amount greater than the value of its paid-up capital and reserve.

3956. That was modelled after the American National Banking system?—Yes. In case of default by the bank, in the redemption of the notes, the Government could sell the securities, and they had, in addition, a first lien on all the assets of the bank. Further, the three banks issuing notes in the Cape, I think, were the Standard, the Bank of Africa, and the African Banking Corporation. They were by the Banking Act of 1879 debarred from the benefits of limited liability in respect of their note issue, so that the public really had full security in every way for all notes issued. They had the securities which were given to the Treasurer. They had also the security of unlimited liability; and they had also this further security, that the full amount of the notes was never really issued. The reason why the note issue powers were not taken full advantage of was because of the fact that it did not pay them. There is a reference in one of the banking journals working that out fully.

3957. (Mr. Middleton.) It must have paid them surely. They were getting interest on their securities. They kept no gold specifically against their notes. The notes were not expensive. The charge made to the banks for the notes was not sufficient latterly to cover their cost to the Treasury?—I understood—I have no facts to contradict it—that the reason for it was as I have said, that it simply did not pay them to issue further notes. For many years prior to Union, banking had exhibited monopolistic tendencies which were very characteristic of all branches of South African trade and industry. There had also been a steady development of banking facilities, coincident with the development of the country after the opening up of the mines; and the cheque system too had been very rapidly extending. These figures will give some idea perhaps of the increase in the size of banks. In 1881, there were in South Africa 13 banks with 132 branch offices. In 1905 there were only 8 banks with 372 branches, which were distributed fairly evenly in proportion to population over the various provinces of the Union and Rhodesia. That, I think, is substantially the position with regard to the relation of the note issue to the gold standard before Union.

3958. (Professor Kemmerer.) Did you run across any evidence that there was any difficulty at all in maintaining the gold standard during those years?—None whatever.

3959. Were there any signs of a dangerous drain of gold?—None.

3960. And yet, at that time, there was no Reserve Bank here, and there was no branch of the Royal Mint here?—Quite so.
3961. The trade situation at that time, was it materially different from what it is now?—After the Boer War, from about 1903 to 1907, they had a very bad depression indeed, because of the accumulation of stocks and the large number of soldiers who stayed in South Africa after the war. One reason was also, I understand, the open credit system, which to a great extent is still in use, which allowed far too large a number of distributors.

3962. All of these facts would have been unfavourable to the gold standard instead of favourable?—Quite.

3963. Despite that situation, the gold standard was apparently maintained without much difficulty?—That is so.

3964. I suppose the country then, as now, was to a considerable extent a debtor country, and had a substantial excess of visible exports over visible imports with which it had to pay its foreign debt charges and other invisible capital charges?—Quite. I think I have some figures which give reference to the increase in imports and exports here.

3965. (Dr. Vissering.) At that time they had not borrowed so heavily in London as they have now?—No.

3966. (Professor Kemmerer.) Do you see anything in the situation that would exist now if this country should return to the gold standard 1st July next that would be more unfavourable to the maintenance of the gold standard than existed at this time to which you have referred?—None whatever.

3967. There are several new factors in the situation now, are there not, that did not exist before? In the first place, there is the point that Dr. Vissering has just mentioned. There is the larger foreign debt. In the second place there is a reserve bank here in a position more or less to regulate the money market and control the exchanges and protect the gold reserves through operations in the open market, and through the movements of its discount rate. Then again, there is the branch of the Royal Mint here that is in a position to coin gold as it comes directly from the mines in any reasonable quantities that are presented. On the other hand, if this country should return to the gold standard independently of Great Britain on 1st July next, and if England should not return to the gold basis at that time, you would have a new factor that you did not have before, namely, of an unstable exchange with the country with which you do the major part of your foreign business. Taking all these factors of the situation into account, do you think this country would have any difficulty in maintaining gold payments if it should resume specie payments 1st July next, independently of Great Britain?—I don't see any difficulty whatever.

3968. Do you think there would be any danger if sterling should go down in value, in terms of the South African pound, that there would be a great efflux of capital from the country to take advantage of this so-called premium one would get in sterling?—On the other hand, I think the return of South Africa to the gold standard would have the effect of attracting capital to South Africa, because of the greater stability which the existence of the gold standard here would give to investors.

3969. You think capital would find South Africa a more attractive field of investment because its currency was on the gold basis, and people would be able to count probably with a greater degree of certainty, on the stability of prices and investment values here?—Yes, I do.

3970. Do you think the return to the gold standard would be a handicap to the mining industry or a help to the mining industry?—I think it would be a help to the mining industry, because gold is the principal export of South Africa; and anything which does away with the use of gold as currency, anything which adversely affects gold, is going to be bad for the mining industry.

3971. South Africa's demand for gold in active circulation would not, at best, be a very big factor in the total world demand, and it is not likely that if South Africa were on the gold basis it would be using much more gold in its currency than it holds in gold specie now?—It would be the moral effect, the example.
3972. Do you think that would be taken very seriously?—If South Africa, the largest gold producer in the world, could not afford to maintain the gold standard, other countries would say: "How on earth can we afford it?" I think such an attitude suicidal.

3973. How about the example to England? England declared her policy some time ago in the Cunliffe Committee's Report to go back to gold at the earliest possible time. She has been struggling with greater or less success ever since to get back. Her exchange has advanced toward parity and then declined, and then advanced again and declined. There are opposing parties in England as to whether she should try to return to parity at once or not, so that the whole question of returning to parity is more or less hanging in the balance in England. Do you think if South Africa should now return to the gold basis, after Canada has practically returned, that that example would have any considerable influence on sentiment in Great Britain for returning to the gold standard?—I would not say considerable influence, but I certainly think it would have some influence.

3974. Do you think it would count on the right side?—It would count on the right side.

3975. Do you think it would be desirable for this Government, if it should decide to return to the gold standard 1st July next, to make an announcement to that effect to the public at a very early date, so that the public would know what to count upon?—I think the earlier the announcement is made the better so as to give trade and industry time to adjust to what would be new conditions.

3976. If this country should decide now that it was unsafe to try to return to gold parity 1st July next, and should decide to tie up to sterling, and if sterling should turn around and depreciate in terms of gold as it did in 1923, and as it did again in 1919 and in 1920 and for a period in 1921; and if this country, being tied up with sterling, should be compelled to follow sterling on this downward course, would inflation probably be necessary in this country?—I think it would be.

3977. What effect would that probably have on prices?—Prices would undoubtedly rise.

3978. And the cost of living?—The cost of living would rise in proportion as it did in 1919 and 1920.

3979. And wages?—Wages might lag behind to a certain extent, but undoubtedly there would be friction between labour and capital. But in the long run I suppose wages would have to be increased more or less in proportion.

3980. Do you think the employers would say to the labourers: "We know the cost of living has risen and we must protect you. Therefore, we will advance wages in proportion as the cost of living goes up"?—I cannot say that I do. I think on an ordinary view of human nature that the reverse would take place.

3981. You think labour would only get such an advance in wages by fighting for it, and fighting vigorously?—Certainly.

3982. Do you think there would be a lag in the advancement of wages as the price level rose?—I certainly think there would be a lag. Possibly the lag is greater where trade union action is not so strong.

3983. Do you think this adjustment which would be necessary if you followed sterling on the downward course would cause serious labour difficulties here?—Undoubtedly, as it has in several other countries of the world since the Armistice.

3984. Let us assume that that took place, that wages finally were brought up proportionate to the rise in the cost of living; and then that Great Britain, in pursuance of her declared policy of returning to the gold standard as soon as practicable in harmony with the Cunliffe Committee's Report, should turn around and again begin to work back gradually and laboriously toward gold parity, would this country, in order to follow her on such an upward course, probably have to deflate?—Undoubtedly, as she has had to do since 1920.
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3985. South Africa would again have to go through another long period of deflation?—Exactly.

3986. Do you think that would be favourable to the trade of the country?—Most unfavourable.

3987. It would be a painful process?—A most painful process.

3988. As the prices fell, would the cost of living decline?—No, not in proportion; it would not keep pace with it.

3989. Would it decline with a lag?—It would decline with a lag.

3990. Would wages decline as rapidly as the cost of living declined?—No.

3991. Would labourers be willing to take a decline in wages as the cost of living went down?—Most certainly not.

3992. You think they would resist?—To the fullest extent of their power.

3993. Do you think labourers fight harder for an increase in wages or to resist a decline in wages?—I think they would fight very much harder against a reduction than they would for an increase.

3994. This painful period of deflation would likewise be punctuated by serious labour difficulties?—Undoubtedly.

3995. And when it was all over you would be back where you are now?—Exactly; possibly not in such a favourable position, because of the added stress and strain and friction between labour and capital.

3996. But meanwhile you would have had a stable exchange with Great Britain, which is your principal export market, and the principal market from which you would import your goods?—I think the advantages which the return of South Africa to the gold standard would bring in its train far more than outweigh any possible advantages which she would get from being linked to sterling.

3997. Do you think the disadvantages of an inflation period followed by a deflation period, would more than outweigh any advantage resulting from stability with sterling, or would they less than outweigh such an advantage?—I think the evils would much more than outweigh the advantages.

3998. (Dr. Vissering.) What should be the duty be of the central bank in South Africa?—On this my information is not founded. I am afraid, on the study which I have been able to give to the other questions. But the function of a central bank, as I conceive it, is to regulate market conditions. When prices are rising, or when any unhealthy tendencies in trade are showing themselves, it is the function of the central bank to cut those out by curtailing credit, which it can do by raising its bank rate or by deliberately selecting in so far as it can, the class of credit which it would deal in.

3999. (Professor Kemmer.) Here is a Reserve Bank in a country in which there are only two commercial banks of any considerable size. One of these banks is so strong—it has several times more capital than the Reserve Bank—that it has not rediscounted with the Reserve Bank, and has not borrowed appreciably from it, and is apparently in a position practically independent of it. How can a Reserve Bank under such circumstances, through raising rediscount rates for other banks, have any effect on the market if the other banks don't care to rediscount, and if the market is outside of the Reserve Bank and not in it?—I was just coming to that. I was pointing out what the function of the Reserve Bank should be. The position of the South African Reserve Bank is quite different from, say, the Bank of England. There seem to me to be three or four factors in the case of the South African Reserve Bank which make its functions in the money market out here rather different from England. First of all, there has been a trade depression during the last three years; secondly, the commercial banks generally, the Standard Bank and the National Bank, have not been compelled to rediscount bills with the Reserve Bank. As a consequence, they have not, as it were, mortgaged all their credit up to the hilt. Any variation of the rediscount rate
by the Reserve Bank, therefore, would have no effect whatever on the policy of the commercial banks, the Standard Bank and the National Bank.

4000. (Dr. Vissering.) The people have not been educated here to deal with the Reserve Bank. A merchant has just told us that he did not know the Reserve Bank had the power to deal directly with the public?—It was really like taking Is. 6d. and 1s. and paying somebody 2s. 6d. to look after them. That is how the inauguration of the Reserve Bank struck me at first. The other point I wanted to mention was this: the control which the Reserve Bank can exercise on monetary conditions in South Africa seems to a great extent to be annulled by the system of open credit which is existent here. The open credit system, as existing between customer and retailer, retailer and wholesaler, wholesaler and manufacturer, and so on right along the line, seems to cut out the possibility to a very great extent of the Reserve Bank controlling the monetary situation. And only when the whole of the credit of the commercial banks has been fully pledged, and they are compelled to rediscount bills with the Reserve Bank to replenish their supplies of cash, would the rediscount rate of the Reserve Bank be effective in controlling the market.

4001. (Professor Kemmerer.) Could not the Reserve Bank exercise a very substantial control over the market through open market operations, through dealings directly with the public? Suppose, for example, the Reserve Bank should make it a policy to buy short-time Treasury bills, which at any time that it wanted to tie the market up somewhat, it could sell, and thereby contract the currency of the country; or suppose the Reserve Bank would go out and operate directly or on a substantial scale whenever it was necessary, and at all times on a moderate scale, with high-grade foreign bills, export bills, and drafts on Europe; by operations of that kind, couldn't it exercise a big influence on the market until the time when there was a greater development in the use of trade acceptances here, and in place of the open account system?—Theoretically, I suppose it could, but I don't know whether the operations which you mention are possible in South Africa. The conditions seem to me so very different from what they are in America or England, where you have very much larger populations.

4002. We understand there is a considerable amount of business done at the present time between exporters and importers directly in buying and selling their exchange, which does not touch the Reserve Bank at all. If the Reserve Bank came in and quoted a considerably more favourable rate than the other banks quote for the purchase of sterling bills, and for the sale of drafts, couldn't it accomplish considerable in controlling the movement of gold and in conserving the money supply of the country and regulating it? Perhaps it could, but if it performed operations like that, it would seem to me it was going outside its functions as a reserve bank.

4003. (Dr. Vissering.) What do you consider then the functions of the Reserve Bank to be?—To control market operations; but as I take it, Professor Kemmerer's question would more or less imply that the Bank should act as a direct competitor with the ordinary commercial banks.

4004. (Professor Kemmerer.) Can a reserve bank make its rate effective in case the other banks want to defy it, or can a reserve bank make its expenses in normal times when the market is out of the bank, unless it is in a position to get out in the market and operate directly? Do you know of any central bank that does not do that?—No, I can't say I do.

4005. The Reserve Bank here, according to law, has the power to do those things. The Federal Reserve Banks in America do those things. All the continental central banks do those things. Wouldn't it be a rather strange situation in a country like this, with only two large banks, to deny the Reserve Bank the right to operate in the open market so as to enforce its rates and pay its expenses, and pay a moderate dividend?—Theoretically I suppose that is actually the condition of things, but I have in mind at the present moment a speech by Mr. Clegg, which
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was reported in the Bankers' Journal, I think, about three months ago, in which he said that the accusation frequently levelled against the Reserve Bank that it was by its credit policy strangling trade and industry in South Africa, was quite untrue; and that it had no power, by its rates, to control the market's situation in South Africa.

4006. The last few years, as you know, have been a period of deflation in this country. That is a time when normally the Bank would not be expected to undercut the other banks very much, or compete much with them. But now, according to the evidence of the exchange rate, this country is practically at gold parity, and its pound is worth several per cent. more than the pound sterling. According to the evidence of the index numbers, you are deflated in this country more than any other important country in the world. Your price level is lower as compared with the 1913 price level than any other important country. You are, perhaps, even over-deflated. So the time, apparently, has come when no one can say that the Reserve Bank, by operating in the open market and competing, would be likely to cause a very serious inflation, or would be going contrary to sound policy in the country. Whatever weight that argument had a few years ago, it would seem to have lost now.—Quite.

4007. We are here concerned with the past only so far as the past gives us information for judging the future. The question before us is, what shall we recommend as the future policy of this country, with particular reference to the gold standard? I suppose the function of the Reserve Bank in controlling the currency and protecting the exchanges, makes it a very important factor in the problem of returning to the gold standard, and of maintaining the gold standard after it has once been re-established?—I admit that. My uncertainty arises because of my difficulty in the past of obtaining any facts since its inauguration as to what its operations have been. I have tried in several cases to obtain information, but I have not been successful.

4008. (Dr. Vissering.) What do you understand by competition on the part of the Reserve Bank with the other banks?—I mean more or less performing exactly the same functions which usually one associates with an ordinary commercial bank.

4009. (Mr. Middleton.) It does not compete for deposit money. It is not allowed to pay interest on deposits?—No.

4010. (Dr. Vissering.) In competing you try to get as much business from the other banks as you can for your own pocket, for dividends. But that is not the aim of a central bank. It is only doing its duty?—I quite agree with that, but so far we have not had an opportunity of testing how far the South African Reserve Bank would be able to control the situation should a period arise when intervention was necessary.

4011. (Professor Kemmerer.) You have seen no evidence of the Reserve Bank doing any actual business with the public?—So far I have not, but I must admit I have not the facts at my fingers' ends.

4012. You know it has not done any appreciable business with the Standard Bank?—I was told that the Standard Bank at first declined to operate with the Reserve Bank at all, but the National Bank has rediscounted quite regularly with them.

4013. The National Bank is the only bank that has done a considerable amount of business with the Reserve Bank. The Netherlands Bank has done some, but that is a much smaller bank?—Quite.

4014. A reserve bank in a country like this could hardly live, could hardly perform its functions, those expected of it in the interests of the general public, if it should limit itself to being a bankers' bank when there are only two banks of importance in the country, and when one does not deal with it to any considerable extent?—Quite so

4015. It would seem that either the Reserve Bank must come out and more actively operate in the open market, both to make its expenses and pay its dividends, and to protect the money
market and conserve the gold standard, if it is re-established, and to assure the public reasonable justice, reasonableness in exchange and discount rates, and so on; or sooner or later public opinion would say, "What is the use of it?"—Yes, I suppose it would do so when conditions arose in which it was necessary for its intervention to take place.

4016. There has been considerable discussion of the advisability of a State bank here. Do you think that if the Reserve Bank should continue to operate in the narrow way it has so far operated, i.e. if it should refrain from operating to any extent in the open market, that that fact would tend to any extent to stimulate the public demand for a State bank to come in and perform those functions which it thinks, either rightly or wrongly, the Reserve Bank should perform, and which it is not performing?—It might do.

4017. Do you think it would be likely to?—I think there might be a possibility of a stronger growth in the movement for the establishment of a State bank if it was found that the South African Reserve Bank could not or did not fulfil the functions with which it was legally endowed.

4018. What is your judgment as to the advisability of a State bank under present conditions?—I should say the establishment of a State bank is, first of all, wholly unnecessary; secondly, I should say if it were established it would be full of danger to the financial stability of South Africa.

4019. Why?—Because of the possibility of political pressure being put on the directors of the State bank during a period of crisis, or during any time when the Government was not in a position to meet their liabilities. Moreover, you would get mixed up with what should be quite a purely banking policy, that political element which is bound badly to affect the sound working of a State bank.

4020. You think politics would get into the bank, and the bank would get into politics?—I think the bank might go into the bankruptcy court.

4021. Have you any other points you would like to make in connexion with this problem which this Commission has before it, that you think would be helpful to us?—I should just like to make a general remark with regard to items 1 and 8 of the questionnaire. I am very much in favour of South Africa going back to the gold standard on 1st July, because, first of all, of the importance of gold to South Africa. There is no need for me to emphasize the fact that the industrial, and, one might say, the agricultural development of this country is to a very great extent dependent upon the existence and working of the Rand; and anything which will adversely affect the Rand gold mines is going to be bad for South Africa. I don't think it is too sweeping to say that the immediate future, anyway, of gold and South Africa are inseparably bound together. A great deal of capital has been invested, not only in the gold mines, but in other industries because of the security which the gold industry has given to South Africa. Moreover, I should like to emphasize the danger to South Africa, as the premier gold-producing country of the world, not being on the gold standard herself. Mr. Hirst, when he was out here last year, very strongly pointed out that if South Africa could not afford the maintenance of the gold standard, what country possibly could? Moreover, there is growing up all over the world a managed currency movement led by Professor J. M. Keynes which has its—shall I say—chief stronghold in England. From my reading of the situation, his movement is making a great deal of headway.

4022. Don't you think there has been quite a reaction in that movement in the last few months? It gained headway for some time, but the evidence we have seen in the last few months is that there has been a very decided reaction?—I have not been able to keep in touch with all the latest sources of information. But I still think that the movement is far from being on the wane—and I am speaking now with reference to the article in the June Economist.
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Journal (an article on Monetary Reform), and several other articles in the New Statesman, The Nation, and The Atheneum, and others in which he strongly advocates a managed currency. From an ideal point of view a managed currency may be all right, but from the point of view of South Africa, and that is the question which we are discussing, it would obviously be very harmful.

4023. If you have a managed currency, you have to have the human beings to manage it?—Yes, exactly.

4024. The human beings who managed it would presumably be influenced by politics?—Quite.

4025. Do you know of any country in the world where you would be willing to trust the management of a paper-money standard to government officials?—I might be inclined to trust them for a certain period.

4026. But a permanent policy?—Not as a permanent policy.

4027. Couldn’t you have a managed currency on the gold standard?—I am inclined to think that in the future the gold standard will be rather different from what the gold standard was pre-war. It won’t be to a great extent the automatic currency which it was before the war. There will have to be a greater correlation, I think, between banking policy and questions of employment and steadiness in trade and industry. But that is no reason whatever why we should not return to the gold standard.

4028. What do you understand by the gold standard?—By the gold standard I understand this: Gold is legal tender to any amount. The coinage of gold is a Government privilege; consequently, when gold is currency it is really State money. The import and export of gold are free.

4029. Aren’t you defining there, not the gold standard but a typical instance of the gold standard as it has ordinarily been in practice? When you speak of a gold standard, don’t you mean that the value of the monetary unit of the country is kept continually at a parity with the value of a given quantity of gold in a free gold market, so that it could not vary from that value more than the distance represented by the gold points on either side; that is, you would have the gold standard, would you not, if you maintained your monetary unit continually at a parity with the value of gold in a free market?—I suppose that would be taken as a definition of the gold standard. But I think one or two other conditions which I outlined are essential elements in the gold standard as it existed pre-war.

4030. The term “gold standard” refers, we will say, to a species of monetary standard, and under this species there are a great many possible varieties. I am trying to find out what a broad definition of the gold standard is. Take the gold exchange standard, for example. That is a variety of the gold standard, is it not?—Yes.

4031. Yet you may have the gold exchange standard in a country without any gold in circulation at all; but under the gold exchange standard properly developed, the value of your monetary unit is always kept in harmony with the value of the gold unit of value, which does not circulate; and your exchanges can never go appreciably above the gold export point or appreciably below the gold import point. That would be a kind of gold standard, yet you might have that without any gold in circulation, and without any gold legal tender at all, might you not?—So far as I understand, gold is legal tender, say, in India, to any amount, but its prime function is in connexion with international payments.

4032. Is that necessary? Let us assume there was no gold in circulation in India at all; that all the money in circulation in India consisted of silver rupees and notes, in addition to the subsidiary minor coins; that that was the only kind of money that was legal tender, but that the Government of India would say when the exchange goes to the gold export point, We will give you in unlimited quantities, drafts on London payable in gold and charge you for them a premium not more than sufficient to cover the expense of shipping gold to London. We will take the rupees for the purchase of these drafts, and we will tie them up in
our vaults." So the currency would be contracted. Suppose India should also say when the exchange goes to the gold import point, "We will let any one present gold to the Bank of England or to some other bank in London, and by paying a premium sufficient to cover what would be the expenses of shipping the gold to Bombay, if the gold were to be shipped, we will give them a draft on the Government Treasury in Bombay, and against that draft we will release this silver and put it into circulation." Then your exchange could not possibly vary beyond the range of the gold import point and the gold export point. Your rupee would always be the equivalent on the 16d. basis, of 1/15th of 113 grains of gold, we'll say, and yet you would have no gold in circulation, and gold would not be legal tender in India. Wouldn't that be perfectly possible, and wouldn't that be a variety of the gold standard? - It would be possible and it would be a variety of the gold standard. But the essential point about the gold exchange standard seems to me to be that there must be some point at which you can get gold when it is required for international payments.

4033. You can get it outside the country? - You can get it outside the country; consequently you presuppose that gold is still, shall I say, universally desirable.

4034. Isn't it true that in any case where you tie up the value of your monetary unit to the value of a given quantity of gold, and maintain it at that value, no matter by what mechanism, in any such case you have a gold standard? Now, under the generic term "gold standard" you may have a great variety of kinds of gold standard, and it is conceivable that you might have a gold standard without any gold in circulation, even under a managed currency ideal. That is, it has been suggested in England and other places, for example, that you might have a managed gold standard whereby the Government would say, "We are going to maintain the value of our unit at its gold equivalent continually, and we will do it by manipulating the supply of currency." When the currency becomes relatively redundant, we'll say, you will cut the supply down by raising your discount rate or by having your central bank go out into the open market and sell Treasury bills and take the money in and impound it. When the moneysy is deficient and exchange goes to the gold import point, namely, when the money goes in value above gold parity, the Bank would reduce the discount rate and therefore release more credit, or the Bank would buy Treasury bills in the open market, and through the issue of notes expand the currency. There you would have a gold standard, because your unit would be tied up with gold, and yet you would have a managed currency. Isn't that possible? - Quite possible, but I don't think it would be at all directly applicable to South Africa, because the whole point about a gold exchange standard is that it can be afforded by a country which is too poor to afford the real standard pure and simple. It seems to me it would be admitting something which South Africa has no need to admit, that is, that she cannot afford the gold standard when she can. It would also lead to a greater conservation of gold and possibly to a fall in its value as a commodity.

4035. If the adoption of the gold exchange standard would enable this country to maintain the parity of its currency with gold, maintain a thoroughly stable currency by the use of several million pounds less gold than would be required under the strict gold standard, because you would have no gold coin in circulation, then this country would be economizing in its money, economizing by that amount, and would be saving each year an amount equivalent to the interest on the amount of gold displaced plus its wear and tear. And if it could maintain its currency just as well and at the same time displace three million pounds—any other figure would do as well—of gold, then it would have a yearly saving from the importation of goods in place of the gold, and that would be a real economy. South Africa is a new country. It needs capital. It needs to economize. Why wouldn't that be a wise policy to adopt? After all, the influence on the value of gold that would result from throwing £3,000,000 more on the market would be a mere
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bagatelle, but to South Africa, the saving involved might be a very large one—in fact, it is a question of the time element there. The immediate saving one must admit. But the policy, if adopted, while it would give you a gold exchange standard, seems to me to be something which is really a "penny wise and pound foolish" policy. It would lead, undoubtedly, to other countries adopting the same standard, and, consequently, you would have, so far as one can see, a redundancy of gold.

4036. Other countries have adopted the gold exchange standard. It exists in a modified form in India, in the Philippines, in Nicaragua. The world knows what it is and knows how it is succeeding. It seems questionable whether the adoption of it by South Africa would have a very great influence in its extension? The gold exchange standard is especially adapted to countries which are really too poor, as I said before, to adopt the gold standard pure and simple, that is, with gold in circulation.

4037. Isn't it true that every country in its currency, as well as in all its other machinery for production, ought to adopt the plan which in the long run is the most economical, consistent with a sound and stable system?—I don't think it would be ultimately economical for South Africa to adopt the gold exchange standard.

4038. Why not?—For the reasons I have just given; that if South Africa cannot afford the gold standard pure and simple, several other countries which were on the gold standard in 1914 would adopt the same gold exchange standard.

4039. You think they would follow her example?—It seems to me to be just a matter of common sense to think so. They would say, if South Africa, which is producing the most gold in the world, adopts this gold exchange standard, why shouldn't we do the same, and also economize? The point of view of South Africa with regard to the gold standard is quite different from the point of view which other countries must adopt. Gold is the life-blood of South Africa, I take it.

4040. South Africa is a new country. It is deficient in capital. It needs capital for its development. Capital is expensive here. Any plan that will enable it to carry on its business effectively and safely, and at the same time economize to the extent of several million pounds of capital, would be favourable to the country?—I quite agree. But the point at issue seems to be this: We are assuming that the gold exchange standard would be operated with the degree of success which it had, say, in India after 1899 to, say, 1914. But I see no evidence whatever to lead us to suppose that we have the experience which is undoubtedly required in managing the gold exchange standard.

4041. Do you need any appreciable experience? Suppose the country simply says: "We are going to establish the gold exchange standard. We will create a 25 or 30 per cent. reserve, which has been the customary one, and we will put a substantial part of that in London in the banks at interest, and we will keep a certain part here in paper. We will fix the exchange limits at the gold points in both directions; and all we will say is that whenever exchange goes to the gold export point we will sell exchange on London at that rate, and we will tie up the money here, withdrawing it from circulation. Whenever it goes to the import point, we will sell South African exchange in London and release South African money here for circulation. Between the two points we will have nothing to do with the exchange." That is a question for the bankers to take care of according to the ordinary conditions of demand and supply. Shouldn't that be just as automatic as an ordinary gold standard? Should it require appreciably more management?—I suppose it may be as automatic, but it seems to me to be unnecessary, where you can adopt a standard which is more or less self-regulating, and which takes away any possibility of political interference; moreover, when you have the basis on which you can build and re-establish a gold standard, it is unnecessary to adopt a gold exchange standard.

4042. No one would say that it was necessary, but it might be said that it was the economical thing to do?—It may be economical.
immediately, but I don't think it will be ultimately. It might lead to a fall in the commodity value of gold. Professor Keynes points out that we may be up against the ultimate fact, that the maintenance of the gold standard requires no gold at all. There is no need for me to emphasize what that would mean to South Africa.

4043. (Dr. Vissering.) I don't agree with you that the gold exchange standard should be a system only for poor countries. For instance, it has been in operation in Java for many years, and Java is a very wealthy country?—Yes, but you have there, I believe, the business skill which you get in older and more civilized countries.

4044. There are very good bankers there of various nationalities, including Japanese and Chinese?—That may be so. Java produces very little gold, whereas gold is South Africa's principal product. It seems to me you are applying an analogy which does not appear to be at all a good one. The conditions which apply to Java or Panama or India are not applicable to South Africa.

4045. (Professor Kemmerer.) If you can economize to the extent of a few million pounds in the use of gold, you have done very little in the direction of depressing the value of gold in the world's market, and about the only evil consequence that you could anticipate, from your point of view, in doing that, is the example that you might be setting to the rest of the world; and it seems to be open to question as to whether that example would have very great weight, in view of the fact that the world has known the gold exchange standard so long, and is operating it so extensively now?—Yes, I think there is truth in what you say, but at the same time I do think there would be a certain influence on other countries if South Africa adopted a gold exchange standard. And there are enough influences operating against the adoption of gold without adding to them.

4046. Another difficulty that has been advanced against the gold exchange standard, and quite a serious one, is if you take two independent countries and one of them keeps its reserves in the other, in case of war, the country that holds the reserves has the whip hand. But when you have a colony like the Philippines keeping its reserves in New York, you don't have that difficulty. In the first place it is a dependency, and in the second place the Philippine currency reserves in New York are such a small item that their movements would have no appreciable effect on the New York market?—In any case, that presupposes that you have a centre which is willing to act as your gold supply centre. While London might be willing to act for South Africa, I cannot help thinking that other countries would be influenced. London might decline to operate under those circumstances.

4047. (Dr. Vissering.) Do you think there is a need for more credit for the agricultural community? Do they want more credit than is now available for them, and do you think that should be given by the central bank as intermediary? It has been advocated on many sides that that should be done. What is your opinion?—I must say that my opinion on this is not one that I might give on further reflection, but there are two or three points that occur to me. I think there is throughout South Africa far too much credit given to agriculture, and it isn't of the right class or given by the right people. Whether it is possible to establish in South Africa banks of the type which have operated so successfully in Germany and Italy, the Raiffeisen and Schultze-Dolitzsch banks. I cannot say. The conditions seem to me rather different here from what they are in Germany, where you have a concentration of the population in rural districts. Here you have sparsely populated districts. The essential factor in agricultural credit seems to be the closeness of personal relationships between debtor and creditor shall operate. That necessitates close physical proximity. Whether or not that relationship is impossible because of the conditions in South Africa, I am not prepared to say. But I should rather think that that is an important factor to take into consideration. I should certainly say that agriculture wants a
fair amount of stimulation out here. I think we are tending to concentrate rather too much upon industry and manufacture before we have really developed our agricultural wealth.

4048. Do you think that the Reserve Bank should take this matter in hand?—No, I don't think it is the function of the Reserve Bank to operate along lines of agricultural credit at all. I think it requires a very special type of organization. You want small banks.

4049. You see no merit in a proposal to create a special State bank in order to give more credit to the agricultural community?—I see none. I don't think for one moment that agriculture would be assisted in the slightest by the establishment of a State bank; in fact, I should say that the very reverse might be the case, because it cannot exercise that discrimination which an ordinary commercial bank would exercise or a bank which is in existence solely for the purpose of assisting agriculture.

4050. (Professor Kemmerer.) It would be very difficult for such a bank to force collections if the public should resist or be unable conveniently to meet their obligations at maturity?—I quite agree.

4051. (Professor Kemmerer.) What is your position?—General Manager of the National Bank.

4052. What experience have you had in connexion with banking?—Thirty years' experience in this country, and a few years' apprenticeship in a Scottish bank before I came here.

4053. You know that the problem specifically placed before this Commission, upon which the Union Government wishes our advice, is the problem of the advisability or inadvisability of returning to the gold basis 1st July next?—Yes.

4054. Would it be your judgment that whatever action is to be taken in this matter should be taken fairly promptly, and publicly announced, so that the public would know what to expect and have a considerable length of time in which to set their house in order?—Yes.

4055. What is your judgment as to the advisability of returning to the gold standard 1st July next?—I have put my views in a memorandum which is before you. My opinion is that as long as it is the expressed aim of British finance to get back, as soon as possible, to a gold basis, that it is a mistake for this country to decide, irrespective of conditions, to return precipitately to gold at a fixed early date. I don't wish to commit myself to the view that we should be permanently linked to sterling, but the difficulties and hardships that may occur would be minimized if we continue in the meantime at any rate to follow sterling.

4056. Sterling at the present time is almost at gold parity. I notice the rate this morning is 4.73$, which figures out about 2 7/10ths per cent. below parity. That is the nearest, I believe, it has been to parity since the exchanges were unpegged after the war?—Yes.

4057. Exchange here on London, I believe, is at a discount of about 3½ per cent. for the banks' buying rate, and then a difference of seven-eighths per cent. between the banks' buying rate and the banks' selling rate. So if you take either one of those rates, or take the mean between the two, the exchange in this country is practically at gold parity, or above gold parity to-day?—Practically.

4058. If this country is to make a decision promptly, and to announce that decision publicly in the near future, can you imagine a situation much more favourable for announcing an early return to the gold standard than right now?—That is so. But what will be the effect be if sterling recedes again?

4059. If you decide now to adopt gold parity, and sterling recedes, you stay where you are; you clinch gold and you remain on the gold basis. If you decide now to definitely tie up with sterling, and sterling recedes, you must follow sterling?—Naturally.
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4060. I take it it isn’t your judgment that you would be willing to commit yourself now to follow sterling wherever it might go?—

I do not say so in my memorandum.

4061. How far would you be willing to follow sterling?—The conditions here are very much more stable all over the world than they were a year ago, or two years ago, and I don’t think there is likely to be sufficient depreciation in sterling to affect us very much out here.

4062. If sterling only varies slightly in the next few years, you would not suffer any inconvenience by being tied up to gold. It is only in case sterling depreciates very substantially from gold that the inconvenience would be serious?—That is so.

4063. In case sterling does depart substantially from gold, I am not sure how far you would be willing to follow it?—That would depend on circumstances as they arise. It is very difficult to say now what steps should be taken.

4064. Do you think it would be proper for this Commission to report to the Government that “We advise that you tie up with sterling and you follow sterling if it goes down, but we can’t advise how far you should follow it”. You should decide how far you are going to follow it as circumstances arise”? Don’t you think the Government would feel that this Commission had rather side-stepped its job if it made a recommendation like that?—That is really for them to say. I have given you my opinion.

4065. What we are trying to find out is, if South Africa should follow sterling part way, can you not give us any more definite idea as to how far you would follow sterling down before you would say, “Now, so far and no farther”?—I think that is an almost impossible question. When the circumstances arise, the conditions at the time would have to be taken into account.

4066. If conditions during the last two years have not been favourable, and conditions before were never at a point when most of the bankers in this country wanted to return to gold, and conditions now are not of such a character that they are willing to agree to return to gold, although you are practically at gold parity, what sort of conditions would have to exist in order to justify a decision to return to gold? I don’t see just what they are. I don’t know if you have read the article by Professor Cannan in the Economic Journal a short time ago, commenting on the policy of this country in regard to going back to the gold standard. His observation was that, when it came to the discussion of the advisability of the country’s going back to gold, it was generally a case of “jam yesterday and jam to-morrow, but never jam to-day.” We want to know under what conditions this country should go back?—Certainly this country should go back if Great Britain goes back.

4067. But if Great Britain does not go back it should, under no condition, go back?—My memorandum makes the point that as long as it is Britain’s fixed intention, publicly announced, to go back to gold that we should not precipitate matters by going back before her.

4068. But it has been Britain’s declared intention to go back to the gold standard ever since the Cunliffe Committee’s Report. But during that time the dollar exchange has fluctuated up and down very violently. In the early part of 1923 it was practically as high as it is now. It went down to an average of about 4.26 (for January, 1924). After that it has been working back. During recent years sterling has been having such wide fluctuations that the question arises, should you follow her wherever she goes as long as it is Great Britain’s declared intention to get back to the gold basis?—Under present conditions, when things are very much mixed up and there is every prospect that Great Britain will be going back to gold, my opinion, as I have said, is that it would be a pity to precipitate matters by going back before she does.

4069. If sterling should depreciate in the next year in terms of gold and in terms of commodities—there is always that possibility—and if this country should follow her down on that depreciation, it
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would be necessary to inflate in this country to do so, would it not?—I don't think there was any very great inflation at the time you speak of in 1923.

4070. Of course, at that particular time, 1923, there was not such a pronounced change in the purchasing power of sterling. The big change in the dollar exchange rate was not reflected by a great change in the purchasing power of sterling or a great change in the purchasing power of gold. It was an exchange fluctuation to which prices did not respond fully or very promptly. But if sterling should depreciate in terms of commodities, then you would have to inflate to follow her, would you not? That is, if it takes more and more sterling to buy commodities in Great Britain, it would presumably take more and more South African pounds to buy commodities here?—Yes.

4071. And if it should take more and more, why, you would have to have more and more pounds in circulation to do the same amount of business?—Yes.

4072. That would mean, in that contingency, rising prices and rising cost of living, and, presumably, demands for a rise in wages?—Yes.

4073. And those demands for increased wages would be met promptly, do you think, or would they be delayed and involve difficulties?—That is a very difficult question to answer. I should think probably wages would lag to a certain extent behind the increased cost of living.

4074. Wages generally do lag?—They generally do lag.

4075. When they lag behind, pretty nearly the universal experience has been that labour becomes uneasy and demands higher wages. That leads to labour difficulties, and sooner or later the wages have to be advanced to take up at least part of the increase in the cost of living?—Yes.

4076. If that situation should develop and should prove only temporary, a matter of a year or so, and if sterling should then turn around and advance toward gold parity, in the carrying out of the policy of the Cunliffe Committee's Report, that would mean, under the assumptions we have just made, another period of deflation in this country?—It would mean that.

4077. That means falling prices and falling cost of living, and a lag, presumably, with regard to wages?—Yes.

4078. Would the labouring men be willing, do you think, to permit wages to come down as rapidly as the cost of living came down, without pretty vigorous resistance?—One can only judge from one's experience of the past.

4079. That has been your experience?—I take it in the past they have always resisted that.

4080. In case such a contingency should happen, of a depreciation in sterling followed by an appreciation, if this country were following sterling it would mean a period of inflation followed by a period of deflation, with whatever evils and whatever benefits arise from these periods of inflation and deflation?—Yes, that is so.

4081. This country has in the last two or three years been going through a rather long period of deflation, and has now deflated to gold parity, or below, as measured by exchange rates and as measured by its price level?—Yes.

4082. It has been a more or less painful process, hasn't it?—It has been a painful process.

4083. And there have been a great many failures, a great many hardships, and much unemployment, and so on. You would run the risk of having these experiences repeated if you should tie up with sterling?—My opinion is that sterling is not likely to depreciate to such an extent that this country would be very much affected.

4084. If it does not depreciate considerably you would not lose anything by tying up with gold. It is only in case it depreciates in terms of gold that you would lose?—It might depreciate 7, 8, 9, or 10 per cent.

4085. That is a pretty big depreciation. A ten per cent. depreciation in your monetary unit, in terms of commodities, in any year would eat up all your interest on any year's loans of a
reasonably safe character, and half again as much in addition. If
you lent me money, as a banker, on 1st January, and I paid you
back 1st January the next year, and I paid you in a pound that
was worth 10 per cent. less than the pound you lent me, and if your
interest rate was 6 per cent., virtually you would have given me
4 per cent. to take the money from you?—That is so.

4086. And when it comes to interest obligations, from the point
of view of people living on funded incomes, having insurance
policies, and all that, a change of that kind would be quite a
serious thing. Now, of course, it is possible that sterling might
be more stable in value than gold, and that if you tied up with
sterling, sterling prices might remain more or less stable and your
prices remain more or less stable here with sterling, while gold
might appreciate or depreciate in value; and if the change was
due to gold, and you tied up to sterling, it probably would not
affect your price level very much here, although being the largest
gold-producing country in the world, changes in the value of gold
would very vitally interest this country. But that raises the
question about which we were talking with Professor Lehfeldt a
few minutes ago: Is it more likely, viewing the situation over a
period of two or three years, that gold will be the more unstable in
value and fluctuate the more widely or sterling?—From the ordi-
nary probabilities, as you see them, is it more likely that a paper
currency, which is not tied up with any metal in an international
market, will fluctuate more in value than gold?—Gold is less likely
to fluctuate.

4087. The decisions of one country would not be so likely to
influence a world product like gold as it would the ups and downs
of a paper-money standard like sterling?—Yes.

4088. So the probabilities, if that answer is true, are that you
would be more likely to have fluctuations in the value of your unit
here, more likely to have the evils of inflation and subsequent
deflation if you should tie up with sterling than if you should tie
up with gold. Is that correct?—Yes, those are the probabilities.

4089. Shouldn't it be a pretty big responsibility to take to
advise this country now that it has reached gold parity, and has
been at or near gold parity for some time, and now that it has
deflated its price level to probably below parity, to declare to the
world that it should tie up with sterling, and if sterling should go
down that it should follow her, and let this gold parity go, and
take all these chances? Shouldn't such advice involve a great
responsibility?—You must take a certain amount of risk in a
matter like this whichever way you decide. It is not a one-sided
question.

4090. Wouldn't the more conservative thing be to say: "Well,
we are at gold parity. We have gone through serious experiences
and difficulties. We have finally got through. Our prices and
wages are adjusted to gold to-day about as completely as we can
adjust them"?—As I pointed out in my memorandum, you may
have very serious difficulties the other way, if you do go back to
gold.

4091. Your memorandum may not go into the evidence, so any
points you want to make from your memorandum you may rea-
lize to the evidence?—We summarize as follows the effects of a sudden
return to gold independently of Great Britain when a considerable
premium exists:—

(1) Fall in prices and depression in trade.

(a) Holders of stocks which can be replaced at lower prices must
suffer from the fall in value.

(b) Producers, whether of gold, wool, maize, or other products,
will receive less in South African currency for their products.
While it may be thought that the gold producer can look
after himself, the position would be difficult of explanation
to the farmer.

(c) The consumer will ultimately benefit from a reduction in
prices. [To the extent that classes (a) and (b) are consumers
or wage-payers they may be expected to benefit.] As the
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rates of exchange will favour importers there will be a temptation to import more than trade demands, and the experience of the aftermath of 1920 shows that such over-import has a wholly baleful effect on trade. South Africa is manifestly so situated that world markets are not available for the disposal of her surplus imports. The increase in imports will tend to accentuate the fall in prices of stocks, but, influences in the opposite direction will be: (i) The fluctuations in sterling, and consequently in the London-South African rate, so that speculators rather than the community will benefit. (ii) The lack of complete competitive organization in South Africa, so that the fall in retail prices will lag behind the fall in wholesale prices; in other words, the rise in the internal purchasing power of South African currency will lag behind the rise in its external purchasing power. (iii) Experience shows that the fall in wages will lag behind the fall in the cost of living (with consequent disorganization of industry).

(2) Greater fluctuations in exchange.
If South Africa returns to gold before Great Britain the former will, of course, be severing its link with the currency of the country with which it not only does much the greatest part of its trade, but through which its trade with other countries is paid for. As indicated above, the greater fluctuations in South Africa-sterling exchange can only be detrimental to our trade.

(3) Loss of capital to South Africa.
With the prospect of a return to gold by Great Britain at no distant date the exchange rate will be an inducement to investors and speculators to convert their holding in South African currency into sterling, and to refrain from the reverse operation. The result will be: (a) Reluctance to provide British capital for development of South Africa; (b) tendency to realize British investments in South African stocks, i.e. in South African industries and undertakings; (c) tendency to transfer funds from South Africa to London to obtain the discount. This was a marked feature in 1920, although the greatest discount then fell far short of the premium on gold, and although there was then no immediate prospect of Britain returning to gold.

4092. (Professor Kemmerer.) That is no longer true?—That is so.
4093. Professor Lehfeldt said a few minutes ago, if you decide to step up with sterling you might have to make a substantial change because you are at gold parity now?—But you may be at gold in July, 1925. Surely one must take the position as it may happen to be at that time.
4094. But you don’t know?—That is so.
4095. We have to make an announcement fairly soon on the basis of what we think is going to be the situation in the future. If we are going to adopt the policy you mentioned earlier, of advising the Government what to do and of advising it to announce its decision to the public promptly so that they would know what to count upon, and if the Government follows our advice, the Government will have to stick to that decision, won’t it?—Well, I have given you the difficulties apparent from a study of the other side of the question, such as the fall in prices, the depression in trade, and the loss of capital. Our practical experience leads us to think that there would be a serious risk of capital leaving this country.
4096. How would capital go out? A good share of the foreign capital in this country is tied up in mines, in factories, in farms, in physical equipment, and not in loose money form?—Our experience in the past has been that people with ready cash, perhaps not a great amount in individual cases, but in the aggregate a very big amount, have transferred such cash overseas through the banks to get the benefits.
Would that be a real benefit, or just a nominal benefit? If your £95 here will buy £100 sterling, the presumption would seem to be that within a very short time your price level would be so adjusted here that £95 here would be worth £100 sterling, and that the difference in the exchange would merely express the difference in the values of the two moneys?—I agree. But my opinion is that in practice the people who have money in this country would be tempted to send it over without going too closely into the finer points of the question.

When a man sends money over he has to buy his drafts on the bank, and pay whatever exchange charge there is for the transfer over?—And he would get paid for the transfer.

The bank expects to make a difference between its buying and selling rate?—Certainly.

If a man should transfer money over to-day and bring it back to-morrow, he would lose the margin of exchange?—My point is that he would probably for a time invest the money on that side.

The interest over there is lower or higher than the interest rate here?—It would be lower.

If he invested the money over there he would have to put it out at a much lower rate of interest presumably than here?—Presumably.

So there would be two probabilities of loss—the expense of transferring it over and of bringing it back, and the difference in the interest rate during the period of the investment?—Yes.

If he should transfer it over there in order to take advantage of this difference that you mention, assuming you are at gold parity and they are not, he would be doing so because sterling had depreciated to quite a little percentage in terms of gold?—Yes.

Sterling is practically at gold parity now. If it turns around and goes down in terms of gold, then this discount would appear and this advantage, you say, would stimulate the transfer of capital?—Yes.

So he would then be buying sterling at a time when England has been unable to clinch her gold parity, although it was her declared intention to do so, and when sterling would, by hypothesis, be depreciating in its gold value?—Yes.

In other words, he steps in and begins to buy a depreciating thing, a thing that by hypothesis is going down in value when he buys it, and which, during recent years, has repeatedly gone down very substantially over considerable periods of time. If he should do that, and sterling should go down 10 per cent. or 20 per cent. while he held it, and then he should decide, “I am playing this risk long enough, I had better bring my money back to South Africa,” he would have a big loss on his transaction?—That is so.

If he should buy it when it was down, and do it round and go back, he would make a profit on this transaction?—My point is: I think the majority of people who would do this are perfectly satisfied that Britain will come back to the gold standard, and, therefore, would be prepared to take the risk.

But there is quite an expense in doing it. It is a real speculation?—I am saying that my opinion is they would do it.

Any one who wants to speculate is in a position at any time to do that. He can speculate in German marks, or he can speculate in mining securities. The same would be true here. The more people bought sterling to take advantage of this opportunity, which would be more or less a nominal opportunity, but you say an opportunity which would encourage them, the higher would be the rate which the banks would charge for these drafts. If the rate is 95 to-day, and people come in and begin to buy pretty heavy, sooner or later you jack the rate up to 96 or 97, as your funds go down on the other side?—Yes, as the funds are depleted on the other side.

Can you give us any idea how large the balances are that the banks are carrying in London now?—You mean the total of the banks, all the banks together?
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4112. Yes?-I could not tell you that.

4113. Can you give us any idea as to how large the balances are that the Standard Bank and your bank are carrying?—I have no idea of what the Standard Bank's balances are.

4114. Can you give us an idea as to your own bank?—I would prefer to give you a statement.

4115. We would like to have this in the record if we can have it, because we think this has an important bearing on the question.—I can give it to you this afternoon. I have been away for some time, and there have been fluctuations while I have been away.

4116. This record will not be made public until the whole report is published, so your balances may have changed by that time.—Yes.

4117. We understand for a considerable period of time, for several years, it has been the policy of the banks to keep fairly substantial balances on the other side?—Hardly the policy of the banks—force of circumstances.

4118. Well, it has been the practice. You say "force of circumstances," but why force of circumstances? Why have the banks been compelled to keep that money over there?—Because there was no means of getting it back except at ruinous cost.

4119. When were the bulk of those balances built up over there that you have?—Some time after the end of 1920.

4120. In 1921, 1922, and 1923. They ran away down in 1920?—They were depleted in 1920 and were gradually built up since then.

4121. There has been no time during that whole period in which the gold value of sterling has been as high as it is to-day?—No, not as high as it is to-day.

4122. Looking at this chart, showing the gold value of sterling from 1920 onward, during which you accumulated these balances, a very large part of the time the gold value of sterling has been very much lower than it is to-day. During the latter part of 1920 and during part of 1921, it was below 4 dollars to the pound. During 1922 it was somewhat higher, but far below the present rate. Early in 1923 it reached about 4.70 dollars to the pound for the average monthly rate, then it declined to 4.26. So the great bulk of the balances that have been accumulated over there have been accumulated at a time when the gold value of sterling was very much lower than it is to-day?—Yes.

4123. If you were to bring that money back at the present rate, or even bring it back at 5 per cent. below the present rate, you would be bringing it back at a much higher gold value than the value at which you put it over there. That would seem to mean in terms of gold that you would be making a very nice profit on the transaction?—Yes, but we haven't got them back.

4124. If you were to bring them back at present rates, or anything like present rates, you would be making a good profit on your transaction, as measured in gold?—I would like to give you a statement on the matter, because the exchange fluctuates at different seasons of the year here, and I would not wish to make a statement without having the figures before me, as to what these balances were and the rates when they were laid down.

4125. The present gold value of your balances over there is much higher than the gold value at which you put them over. That is clear, because the gold value during that time has never been as high as it is to-day.—That depends on the rate that was charged.

4126. There was no time during that whole period when the value of the pound sterling was anything like as high as it is to-day in terms of gold?—No, that is correct.

4127. So I don't see where your loss is. It seems to me of course, if you would have to bring these back at a 5 per cent. discount you would get less back than if you could bring them back at par. But even at a 5 per cent. discount, you would be making a very good profit on the accumulations there through the fact that you would be bringing them back at a higher value than that at which you sent them over. And while they have been there, you have, presumably, been interest or profit of one sort and another on the investment?—I think there is a slight
misunderstanding there. When I spoke about "ruinous cost" I was not speaking about to-day. I thought you asked me why we had allowed those balances to remain there in the past, not why we left them there at the moment. We did not adjust the position as we went along because these balances accumulated in London, and it would have been at ruinous cost to us to bring them back.

4128. One point that has been urged somewhat is that, if this country should go back to the gold basis and if sterling should depreciate, the banks would incur heavy losses in bringing back their balances to South Africa. The point I am trying to make is, they would not incur heavy losses in bringing them back if they could bring them back at anything even approximating the rates existing to-day, because they put them over there at so much lower gold values than the present ones?—Yes.

4129. If there should be an outflow of capital from this country, it would be through the fact that people here, in transferring their funds abroad, would be coming to the banks and buying substantial quantities of sterling drafts?—Yes.

4130. They would have to buy very substantial quantities of sterling drafts in this country before they would even exhaust the balances that the banks have abroad now; that is, the banks could meet large demands for such payments by reducing their balances there before it would be necessary for them to get cover by exporting specie?—But it did not take very long in 1920.

4131. But 1920 was a time of world collapse in prices and this collapse took place in practically every country in the world. We have not yet been given any conclusive evidence that there was a large transfer of capital at that time. Figures have been cited that seemed to show on the surface that there was a transfer, but when they were submitted to analysis, they have not been at all convincing. For example, we have the figures here cited by a number of witnesses of the great decline in the deposits in the banks here at that time; a great decline in the credits which would seem to show a very substantial reduction of funds in this country?—Yes.

4132. That has been cited as a proof of the great outflow of capital. But when we come to analyse it, we find certain counter-factors. In the first place, we find that the price level in this country declined from an index number of 232 for the quarter ending 30th June, 1920, to 138 for the quarter ending 30th September, 1921. In fifteen months, then, there was an increase in the purchasing power, in the value of your South African pound, in the ratio of 138 to 232. So that, if you measure the banks' deposits that were in this country, and the bank credits that were in this country in terms of the real value of your South African pound, there was practically no change. Formerly, you were measuring your values in, we'll say, a yardstick somewhat less than 2 feet long, and then you said you had less yards; but it was because you were using a different kind of yardstick. Then we find, also, that as a rule this country exports much more than it imports, because of the heavy invisible imports it has and must pay for. That was the rule before 1919, until May, 1920. And then from May, 1920, through January, 1921, each month there was an excess of imports over exports. It appears that what happened here was, when the great slump took place in world prices, people abroad who had been receiving orders from this country perhaps in very large quantities—because people over-ordered in view of the difficulties in getting their orders fulfilled—when that slump came the exporters overseas took advantage of it, and began to fulfil their orders with a vengeance, and they unloaded on this country as they did in every country where they could at that time, large quantities of goods. Meanwhile, the slump in prices cut down your exports and reduced them relatively; and so you had this temporary increase in imports?—Yes.

4133. At that time there was a nice premium in sterling exchange, that is, the South African pound was considerably more valuable than sterling, and the people that were importing
heavily took advantage of that and paid for this big excess of imports fairly promptly while the rate was so favourable; and furthermore, they paid off many obligations they had incurred. That lasted a comparatively few months. Meanwhile, their inventories were well filled up, and during the next year they did not have to import very much, because they were over-supplied. The situation turned, and from that time on, almost continuously, you have been exporting more than you have been importing so far as visible items are concerned, and this change in prices, due to the depreciation of the pound, and this temporary change in the foreign trade, would seem to explain practically all of the alleged outflow of capital, so far as we have been able to get the figures.—Yes. But I should think it is a very difficult thing to confirm by figures. I am merely expressing an opinion from what we saw in the banking institutions.

4134. Do you think there is any very great probability that there will be another catastrophic drop in prices and apparent outflow of capital in the reasonably near future of the type you had in 1920 after the world-wide inflation?—No, I should not think so.

4135. So it is hardly a safe basis upon which to judge what is likely to happen if you return to the gold standard next July?—I am merely giving an instance from past practical experience of what may happen.

4136. Do you think it is likely to happen? Do you think that experience is any guide as to what is likely to happen?—I think it is to a certain extent. I cannot say more than that. I cannot say that it is not possible.

4137. A number of witnesses before this Commission have taken the position that they thought if South Africa would stabilize in terms of gold, the result would be that capital would be attracted to this country; that the uncertainties incidental to a paper-money currency and a fluctuating unit of value were such that it was causing capital to stay out of the country; and that the minute South Africa should return definitely and squarely to a gold standard, offering to convert its paper currency on demand into gold, that foreign capital would be inclined to come here. And the fact has been cited that during recent years gold-standard countries have attracted a considerable amount of capital from the unstable paper-money countries, in spite of the fact that interest rates in the gold-standard countries were generally lower than in the other countries. A great deal of foreign capital has come to America, and it took advantage of the gold stability of the monetary unit. A great deal of foreign capital went into the Netherlands, and into other places apparently for a like reason. What do you think of that argument?—I should think it very problematical. It would depend, I think, far more on the proposition in which the investor was asked to place his money than to anything else in this country.

4138. Is it more problematical than the other? You take up the position that if South Africa returned to gold and sterling depreciated while this country remained on the gold basis, there would likely be quite an outflow of capital. Here is a contention just the opposite, that it would be likely to lead to a decided inflow of capital. They are both problematical, are they not?—I think I have said that I have no experience the other way. I am merely speaking of my practical experience in connexion with the outflow of capital. It would be very difficult for any one to say what the effect would be.

4139. (Dr. Vissering.) We have been told that it is almost impossible to get genuine commercial paper in the open market, and that one of the reasons is the system of open credit accounts you have here?—Traders are prejudiced against signing a bill here; although they are doing it to a certain extent, they do not like doing it. The ordinary man in South Africa, I think, prefers to owe his money on open account.

4140. Do you try to get such bills?—Certainly.
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4141. It must be very convenient for you, and you can redis­
count them?—That is so.

4142. (Professor Kemmerer.) Have you had much success?—
Not what we would have liked.

4143. (Dr. Vissering.) Are the people opposed to it?—I think
it is that the people have not been accustomed to it and that they
are frightened of it, and that it will take them a long time to
get into it.

4144. (Professor Kemmerer.) Suppose the wholesaler should say
to his retail customer, "You have been buying on open account
for some time, and ordinarily you pay us in about such and such
a time. We have no particular desire to speed up the time at
which you pay, but there is a decided advantage to us in having the
account in the form of a bill, and if you will let us draw on you
for these accounts at sixty days or ninety days, or whatever may
be a reasonable maturity, and if you will accept the bills, we will
give you a discount of a substantial percentage in our prices. Open
account so much, bills so much, representing a substantial discount,
because it is to our advantage; and we believe in the long run
it will be to your advantage to use bills." In that case the retailer
could see that there was a real cash gain. He would see the
inducement. Wouldn't he be likely, if that inducement were
made fairly substantial at the start, and if the wholesaler sat down
and talked the matter over with him, and didn't merely send him
a circular; don't you think a good proportion of your best retailers
would come over?—I think probably they would. But then, that
all comes back to the point that the bank cannot do
very much in
that direction. It must be done by the wholesaler.

4145. You can encourage the wholesaler to go ahead and offer
these inducements?—We always point out the advantages.

4146. You could say that the Reserve Bank gives you favourable
rates of rediscount for this sort of paper, and, therefore, you will
lend on better terms, if they will bring you their paper than if
they operate on open account?—Those are the lines on which we
have gone.

4147. Certainly, if the wholesaler discounts that paper and
leaves more or less of his balance with you, he ought to get sub­
stantially better terms than if you charge him interest on the
average daily balance of his overdraft?—But then they must all
do it. If the wholesale people combined and came to a definite
decision that they would only sell against bills, and not on open
account, the thing would be very simple. But it is a very difficult
thing for one or two firms only to try to do it.

4148. (Dr. Vissering.) From the banking standpoint, are you
trying to get people to do it?—We have been trying for a long
time, ever since the Reserve Bank came into being.

4149. With a certain measure of success?—Only with a certain
measure of success.

4150. Not very great?—Not very great. It is a gradual process.
I don't think you can expect a country like this to change its ways
of doing business very suddenly.

4151. You have been trying for several years to bring about such
a result?—Since about 1921.

4152. Is there any advance in the ideas of the people?—I should
certainly think there is. But there are practical difficulties in the
way. The most practical difficulty is that the wholesalers are not
acting in unison. It is very difficult for one firm to insist upon its
customers giving bills, if the man across the street is not doing it.
The retailer here, as I say, prefers to have an open account.

4153. (Professor Kemmerer.) Even supposing the man across
the street would not come in with him. Suppose the wholesaler
would say to this retailer, "We have been accustomed to carrying
you on open account. We will continue to do so if you wish to,
but we find a decided advantage in having your account in the
form of bills, and we are willing to pass on a good part of that
advantage if you will agree to put your business in the form of
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bills. We will give you a substantial discount right along as com-
pared with what we would charge you on open account. — I
should think it would quite likely appeal to the retailer if the
discount were made substantial enough.

4154. It would pay the wholesaler, wouldn’t it, in the long run
to make it substantial? — In the long run it probably would. But
I am telling you what the difficulty has been in the past. They
have not been offering anything in the way of a discount.

4155. (Dr. VISSENG.) Has your bank been alone in trying to
do this, or have the other banks been acting similarly? — I really
could not say, but I should think, as far as possible, they would
like to get their business on a bill basis. Of course, I have no
authority for saying so. I do not know what they have done.

4156. (Professor Kemmerer.) What difference do you make
between your rate for discounting bills and your overdraft rate? —
At the present moment 6 per cent. as against 6½ per cent. That is
for the very finest business.

4157. Is that a sufficient difference to compensate for the advan-
tage of the bill? — Your 6½ per cent, on overdraft is measured on
the average daily debit, isn’t it? — Yes.

4158. Your 6 per cent. on the bill is measured on the face value
of the bill, when it is discounted, and to the extent that your
customer leaves a balance with you on deposit, you would gain
an advantage. Doesn’t he, as a rule, leave something of a balance
there for some time after he discounts the bill? — It varies a great
deal. It would be very difficult to say.

4159. On the average it is more advantageous to you than the
overdraft? — We would much prefer to have it.

4160. Do you think that ¾ per cent. really is sufficient to
represent the difference? — I doubt it very much, but our practical
experience is that it would be very difficult to make it any wider.

4161. Why? — Because we would have tremendous pressure
brought upon us to do the first-class secured advance at a lower
rate. And it would be very difficult to refuse our old and valued
connexions.

4162. You would say to your old and valued connexions, “We are
trying to do this in the interests of building up a real money
market in this country, of stabilizing the situation. And if you
want this better rate, you can have it simply by putting your
account in the form of a bill. Then you will have the same
privileges as anybody else. Just put your account with us in the
form of bills”? — A lot of our advances would be to people who are
probably not in a position to give us bills at all.

4163. A man who can pay an overdraft can pay a bill? — He
may not be in a position to get a bill. He may be borrowing
against some form of investment that he has.

4164. He could not do it all, but there must be a considerable
portion of that business where, if there were sufficient inducement,
he would be in a position to get a bill? — With commercial houses.

4165. (Dr. VISSENG.) Do you do any business in forward
exchange? — No, we have never done forward exchange in this
country.

4166. And why not? It must be very convenient to people to
fix beforehand the price at which they can sell their goods? — One
of the greatest difficulties in the exchange position out here is that
it is quite impossible to balance our transactions. We cannot
balance our buying and selling exchange once a week or once a
month. It depends entirely on the season of the year. At this
season of the year we over-buy heavily. There are other seasons
when we over-sell.

4167. (Professor Kemmerer.) Can’t you balance over a longer
period, for instance, six months? — If you were buying forward
exchange, you would have more or less to balance your transactions
as you went along. That is an almost impossible thing to do here.

4168. In all countries where they have forward exchange there
are seasonal swings? — In those countries the volume of business
is greater.
4169. Supposing the Reserve Bank should come in and say the stabilizing of exchange is desirable for this country and that they would stand by the banks in connexion with forward operations: couldn't the Reserve Bank do a great deal there to help you balance?—That point, as far as I know, has never been discussed.

4170. (Dr. Vissering.) Do you expect the Reserve Bank eventually to do exchange business and create a market in forward contracts?—I suppose it is possible for them to do it.

4171. At the moment they don't do it?—There have been no forward contracts in recent years in this country.

4172. What is your opinion as to the functions and the duties of the central bank? Could it develop its field of work, and would that be desirable: it is rather negative at the moment?—Do you mean that they should enter into competition with the commercial banks?

4173. "Competition" is not a good word to use. I mean operating only in the working field in their own sphere, and to a certain extent coming into the same working field as the other banks, but not with the express purpose of competing?—They have quoted a lower rate for discounting bills than the commercial banks are prepared to quote. I take it that in any sphere where they thought the rates we were charging were not satisfactory they would probably follow the same course. I am merely judging by what they have done. They thought our discount rate should be reduced. We could not see our way to do it, and they quoted a lower rate themselves.

4174. Do you expect they will get sufficient first-class bills on the lower rate of discount?—That I could not tell you. I have been away recently, and I do not know what they have done in the way of discounts or if they have discounted any at all.

4175. Are good commercial bills available in the open market here?—There is really no open market here.

4176. Is every one tied up to his own banker?—That has always been the custom in this country: they go automatically to their own banker.

4177. It is very difficult for people who have their own banker to go to another banker?—I think it is a matter of custom. There is no reason why they should not go. There have not been the opportunities up to now. If they were not satisfied with the treatment they got from other bankers, naturally they would try to get better treatment from a different bank.

4178. (Professor Kemmerer.) Don't you think it is highly desirable that in a country of this kind you should have developed at the earliest possible time the practice of making forward contracts in exchange?—The public have always got their exchange transactions put through their own bank without any trouble.

4179. There is a substantial risk, though, if you don't fix your exchange forward at times when the exchange rates are materially fluctuating?—They have not fluctuated to any great extent.

4180. Take the exchange rates in the last few years: They have been at one time as low as 7½ or 8 per cent. discount, and they have been up to 5 or 6 per cent. premium.—You are talking of 1920?

4181. Yes?—That you acknowledge was a very abnormal time.

4182. That is true. But let us assume if this country should go to the gold standard, and if sterling should not get back to parity, then again you would have these fluctuations depending upon the extent to which sterling varied. If you had facilities for making forward contracts, the exporter by making a forward contract for the sale of his bills would protect himself against most of the losses incidental to fluctuations in exchange during the life of his bill. The importer, by being able to make a forward contract for the purchase of drafts, would know just what to count upon. He also would eliminate the greater part of those risks. And the banker, by hedging, would avoid a substantial part of the risks, and would make his margin between his buying and selling rate. It would seem that all the parties concerned
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might be benefited, and a much greater element of stability brought into such transactions?—I think there is a good deal in what you say.

4183. That is the practice in most other countries, I think, that have a fluctuating exchange. Dr. Vissering and I both have been very much surprised to see that nothing has been done in that direction here up to the present time.

4185. We have in the United States under the Federal Reserve Act a provision that banks may borrow from the Reserve Bank directly by giving their own promissory note to the Reserve Bank for fifteen days or less, what we call fifteen-day loans, collateralized by Government bonds, short-time Government certificates of indebtedness, acceptances, or other kinds of commercial paper eligible for rediscount?—Yes.

4185. Very frequently banks want to borrow for two or three days, and they don't care about showing on their records that the paper of their customers has been rediscounted, so they make these direct short-time loans, backed by such collateral. And at times over 90 per cent. of the advances by some of our reserve banks were in that form after the war. Do you think it would be desirable in this country to so amend the Reserve Bank Act as to make such loans possible here?—Do you mean for a limited period?

4186. Fifteen days. They could be renewed?—I don't see any objection to that. It might be very convenient at times to do it. Just let me understand: your idea is that the commercial bank would give a bill to the Reserve Bank?

4187. A promissory note?—With their own name?

4188. Yes? Backed by a deposit of Government securities, or I suppose even commercial bills?—That might be very convenient. I should think that at times that might suit us very well instead of rediscounting.

4189. Another point in connexion with the Reserve Bank that has been mentioned is the duty of the Reserve Bank to act as a sort of trustee for the public. It is claimed that it is a quasi-public institution, that it has certain very important duties in protecting the public interest, conserving the money market, maintaining the gold standard if you got back to the gold standard, preserving the treasury from an undue drain of specie; protecting it from an over expansion of credit if there should be a tendency for undue speculation; guaranteeing the public equitable rates of discount and exchange, and so on. It has been argued that, in order to enable the Reserve Bank to do those things, and at the same time to enable the Reserve Bank to function in normal times, when other banks were not looking to it for any assistance, that it should operate more vigorously in the open market. One method of doing that, and of controlling the situation, that is employed extensively in America at the present time is to buy and sell directly securities in the open market. For example, an American Federal Reserve Bank, if it wished to tighten the market up a little bit in case it thought the market was becoming over-speculative, would sell United States short-time certificates of indebtedness or bankers' acceptances; and as it sold them it would withdraw the money from the market, and thus tighten up the market and make its own rates effective, and thus stop what it considered a dangerous expansion. In this country it is claimed there are so few bills that can be bought in the open market that way that the Reserve Bank would be considerably handicapped. And it has been suggested that if the Government here, in connexion with its public debt, should place part of that debt in the form of three month's Treasury bills, which would be taken up by new bills from time to time as needed, that the existence of these bills and the development of a more or less active market in them would place the Reserve Bank in a position more effectively to do those things that a reserve bank ought to do. What is your judgment about that?—It would depend a good deal on what rate the Government are going to allow.
4190. The Government would pay a fair market rate—what it has to pay now?—I was looking at it from a bank's point of view, that it might be a very serious competitor in the way of deposits.

4191. Yes. But if the Reserve Bank has to function it must be given some facilities by which it can function. And in the long run I should think the functioning of the Reserve Bank would be not only good for the public but good for the other banks. Unless you give it a field in which to operate, it cannot continue to exist.—That is so.

4192. (Dr. Vissering.) But in case you don't care to get more deposits: if the Reserve Bank should try to make its own rate effective by selling in the open market these short-time bills of the Government—Treasury bills and so on—they should do it only when money is very abundant?—If it was only done in cases like that, it probably would not affect us.

4193. (Professor Kemmerer.) There are two things there: One is to provide the machinery by which the Reserve Bank can make its rates effective whenever the market is outside of the bank and it finds that it must come in and influence the market in the public interest. The other is to give the Reserve Bank a certain line of reasonably profitable operations, to carry on in normal times so as to enable it to pay its expenses and earn its dividends when the other banks are not rediscounting with it to any extent?—What do you wish me to express an opinion upon?

4194. The creation of these three months' Treasury bills which exist at present and which were discontinued, I understand, in the public interest. It is a question now whether it is not desirable in the interests of the proper functioning of the Reserve Bank for the Government to issue them again?—My point of view would be, if they were quoting a better rate than the commercial banks, it might cause a very serious drain upon our deposits.

4195. Isn't it pretty clear that the Reserve Bank can neither make its rate effective nor earn its expenses unless it is in a position to go out and operate in the open market? If it does that it must be in competition in one form or another with the other banks; otherwise it cannot get any business. If it cannot get any business it cannot perform its function, or exist?—That is so. Of course, the difficulty would be, as I say, that there is no open market in this country at all. Such a market would have to be developed.

4196. Wouldn't that be one of the ways of developing it? Issue these short-time bills, advertise them pretty extensively. People with ready funds would find them a good investment. Until a few years ago they were almost unknown in the United States, and in the last few years we have had hundreds of millions of dollars in short-time Government Treasury bills as a temporary form of investment. It has been not only a good thing for the investor, but it has been a very good thing for the reserve banks. I can say no more about it, but that I have the fear it might have an adverse effect upon our deposits, which would mean that we would have to restrict other parts of our business.

4197. It has been suggested that it might be useful in this country to amend the Reserve Bank Act in section 13 (3) by substituting for the words "bills having a maturity not exceeding 90 days" the words "and having a usance not exceeding 120 days"?—I think the tendency is in local commercial bills and overseas bills to limit the currency to 90 days.

4198. But are there not a considerable number of bills that are drawn at 120 days' sight, and would it not be an advantage if such bills could be rediscounted?—There are a fair number, but I don't think so many as there used to be. There would be an advantage in having them.

4199. Do you see any particular disadvantage in that?—No, I cannot see any particular disadvantage. If it were an agricultural bill it might be a help.
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4200. It has been stated that the Reserve Bank is not in a position to rediscount or purchase bills which might be secured by agricultural produce or other staple products in warehouses. Wouldn't it be an advantage to this country if the Reserve Bank could rediscount such bills or buy them in the open market, provided the requirement were imposed that in no case should the amount of such bills that the Reserve Bank held at one time be over a certain reasonable percentage of its capital and reserves; and provided further that the value of the produce against which the warehouse receipts were issued should in all cases afford the bank at current market prices a substantial margin of safety?—The difficulty I see there would be in the question of storage.

4201. It would only be possible to the extent that you have warehouses in this country. But to the extent that you have warehouses, and that the warehouse receipts exist, to that extent this privilege would be of value?—I think probably it would. But, of course, you would have to watch the margin of security very closely. With most products in this country you would require to have a fairly wide margin.

4202. Fix the margin at any point that experience has shown to be a really safe margin, and perhaps provide in the law that in all cases the margin should be at least so much?—I could see no objection to that if, as I say, it could be properly controlled.

4203. (Dr. Vissering.) We have been told that there is a lack of credit for agricultural purposes. First, what do you think of this complaint; and, secondly, do you think it would be advisable for the Reserve Bank to assist in extending credit for agricultural purposes?—My experience has been that there has always been a tendency in this country for the farmer to get a little bit too much credit.

4204. From the commercial banks?—I don't say from the commercial banks; generally. They get it from the banks; they get it from the storekeepers; they get it from various sources.

4205. You don't agree with the complaint that there has not been sufficient credit available for agricultural purposes?—I do not think that has been the case.

4206. Are you giving credit to agricultural people?—On bills, yes.

4207. On bills?—Mostly on bills.

4208. They are ready to sign the bills?—Yes, they are. That is an important section of our country business.

4209. Are some of these just one-name promissory notes?—Very few. They are invariably two-name. The usual form they take is a bill signed by the maker and then by the principal surety.

4210. It is accommodation paper?—Really, if you come down to bedrock, it is accommodation paper.

4211. Are you not reluctant to take that paper?—If the local bank manager knows his business the chance of loss is very slight, and it is a very profitable business.

4212. You are charging a higher rate of interest on these bills?—We charge a higher rate; we don't charge the fine rate on them. But, as I explained before, they very seldom pay a bill on maturity. Those bills are usually renewed three or four times.

4213. So many times?—Oh, yes, very often. And we make a charge, probably a quarter or a half per cent. in addition to the interest charge, on the renewal.

4214. As a kind of commission?—As a kind of commission, so as to induce them to pay it as quickly as they can.

4215. The rate of interest they have to pay is much higher?—It is much higher. But it is a business that has to be very carefully managed if you want to run it successfully. You have to know your people.

4216. But on the other hand it is very remunerative?—Yes, it is very remunerative.

4217. Do you think people have a right to complain that the Reserve Bank is not doing such business?—Do you mean agricultural hill business?

4218. Yes?—I don't think so. I think they are very well served.
4219. Have you heard it advocated from several sides that a State bank should be established here for the purpose of giving credit for agricultural purposes?—My experience, over many years, is that credit would have to be given very carefully and very cautiously. You could very easily give them far too much money.

4220. It is not in the line of a central bank to do such business?—I should not say so. A State bank would be a totally different thing.

4221. Are you rediscounting such paper with the Reserve Bank?—Only if it is a purely agricultural bill, if it represents goods in some form or other.

4222. (Professor Kemmerer.) It would have to be an acceptance?—Not necessarily.

4223. You can rediscount a promissory note if it has been used for commercial purposes?—Yes.

4224. If it were an accommodation promissory note, you couldn't?—No, we couldn't.

4225. (Dr. Vissering.) You have to explain to the Reserve Bank what kind of paper it is?—We give a certificate that the bills comply with the terms of the Reserve Bank Act. We give that certificate every time we discount a bill.

4226. At all events you are of opinion that these complaints are not well founded?—I honestly think so. As a man who has lived many years in this country, in the country districts, I think the farmer gets all the credit he requires. There may be individual cases where he doesn't.

4227. Do you think there is a powerful party here advocating such a State bank?—I have heard so.

4228. The experience of Egypt in this field has not been fortunate. The Agricultural Bank in Egypt developed very rapidly. The tendency was for the young farmer to borrow unduly and to get tied up. I understand, as a result, the Agricultural Bank is now being gradually liquidated, and restrictions have been imposed by the Egyptian Government in the matter of borrowing.

4229. (Mr. Paterson.) I undertook to obtain some figures for this afternoon. To-day the liability of the London Office to the branches of the bank abroad approximates £6,500,000.

4230. (Professor Kemmerer.) That is, to the branches in this country exclusive of the branches in New York and Amsterdam?—We have no branch in Amsterdam. The figures would require analysing, as they include branches outside the Union.

4231. The bulk of that is to the banks in the Union?—The bulk of it is to the branches in the Union. A year ago—1923—the figure was approximately £6,000,000. I would like to qualify my statement by saying that of this £6,000,000 we would require to keep at least £2,000,000 in London for the requirements of our London business and branches settling in London. We could not bring the whole of this £6,000,000 back to this country. We have to keep cash against liabilities there.

4232. (Professor Kemmerer.) What is your present position?—Professor of Economics, University of the Witwatersrand, Johannesburg.

4233. How long have you held the Chair of Economics there?—Since 1917.

4234. You have been interested in this problem of currency in South Africa for some time?—Yes.

4235. You have written more or less upon it?—Yes, I have written various things about currency.

4236. You understand that the problem that has been placed before this Commission by the Government is that of whether or not South Africa should return to the gold standard 1st July next,
regardless of what action may be taken between now and then by Great Britain. We would like to have your judgment on that question, and the reasons for that judgment?—That is the end of the argument, isn’t it? I don’t want to give you a dogmatic opinion, but if there are any points leading towards that, that I can offer any useful opinion on, I shall be glad to.

4237. What we want is to get your message on this subject without restricting you by a large number of specific questions. If you will give us your judgment on the question in its entirety, and then some of your reasons for it, we shall then, perhaps, have some specific questions to ask. We want to give you a free hand?—As I pointed out in my telegrams to the Treasury, I have not got any information to give you in the way that various business people and others have got. I have been thinking about this problem, but all I can do is to use my judgment on material which I happen to possess. You members of the Commission have better material at your disposal than I have, from hearing all the facts; so that I was a little doubtful as to how far I could be of value in coming to talk it over. But I shall be very glad to give you any points that have occurred to me.

We feel that, after all, a person who has been here in this country as much as you have, studying the situation, must know the big facts in the case; and, after all, perhaps the principles at stake, the fundamental economic forces which are involved, and the weighing those forces in their actions and reactions, are much more important than a few additional facts. We hope you can help us in that respect?—Perhaps the first thing that strikes one is that South African currency is already worth its gold equivalent; it is within 1 per cent. one way or the other.

4239. It is apparently more to-day. I see this morning’s paper says the New York Exchange rate is 4.731. If you count the South African buying rate as 31, and selling ½ below, and take the mean between the two, you are substantially above gold parity to-day?—Yes. Well, that means, of course, if the gold standard were resumed at the present moment there would be no shock to commerce of any kind. And the questions which you ask in that schedule as to the effect on imports and exports and so on, would rather be questions of what might be the consequence of the English currency receding from its present position later.

4240. Isn’t it true that in judging whether this country has attained real gold parity, or not, you must take into account not only the exchange rate, but the price level?—Yes, but the price level in South Africa is hardly well enough defined to be the basis of a purchasing power parity estimate, I think.

We are interested in that, because we have had several men from the Bureau of Census and Statistics before us. We questioned them more or less on their index number of wholesale prices, and they seem to think that it is a reasonable index of purchasing power here. We find it covers some 188 odd commodities. It seems to be scientifically computed, and up to the present time our inclination has been to take that as a reasonable criterion of the value of money here?—Yes, I don’t mean to cast any aspersions on it. On the contrary, the index number is very well managed here. But it is difficult in a country like this, where for one thing the value of local produce and imported goods shows so much difference, to get an index number which is reliable for currency purposes. You see, the Census Department tells you the ratio between prices now and prices at a fixed date, say, 1910, and the purchasing power parity theory assumes that you can compare the currencies of two countries now by starting from the same basis in a time before the war; but that is assuming that there are not other changes, apart from expansion or contraction of currency affecting prices; no change in the real ratio of exchange of goods between the two countries in question.

4242. Yes, but when you take such a large number of commodities as you have in the index numbers of leading countries now, and which you have here, isn’t it probable that such changes as you would have of that character in a period as short as this,
 would be to a considerable extent lost through the principle of the stability of averages of large numbers?—Estimates have been made about the changes in the ratio of exchange between England and America. You have Keynes's expression of opinion that the ratio had altered by, perhaps, as much as 10 per cent. in favour of America since before the war. I don't know whether that is correct. It may, very likely, be excessive, but at any rate there have been marked changes even between two countries like that, which do a very wide trade. Now, I think the relative change in the case of a small country like South Africa would very probably be greater; for one thing, we depend too much on the export of a single commodity.

4243. I have here the Federal Reserve Board's wholesale price indexes for different countries, and they give in this issue (November, 1924) of the Federal Reserve Bulletin, the figures for the United States, England, France, Canada, and Japan, converted to a gold basis on the basis of exchange. They show, for example, that for August, which is the latest figure going right through, the United States index number was 158, England was 180, Canada was 149, Japan was 163, and France was entirely out of adjustment, 125. In France you have had extreme fluctuations comparatively recently. We find that for South Africa the index number, calling 1913 100, is 133 for October. It is 167 or 168 for England at the same time, which seems to show, as far as you can judge from this, that South Africa has deflated, not only to gold parity, but after allowing for a pretty wide adjustment, that she has deflated her prices very substantially below gold parity. And, therefore, if she should go back to a gold basis, it would not seem that she would have to reduce her prices any more?—There are some circumstances in South Africa that make that comparison rather an untrustworthy basis for a calculation; for one thing, the fact that we depend so largely on a single export.

4244. The price of gold does not appear in these index numbers at all. It is an item in your trade, but it is not in your index number?—That is an important qualification. That cannot fail to have affected the ratio between our imports and exports—the fact that we largely export a commodity which has not risen in value, if you take gold as a standard; just the converse of what is happening with manufactured goods that have risen to much more than the average. For that reason I should not exactly like to base an estimate of the probabilities of the level of prices here, as compared with England and America.

4245. I don't just see why that would vitiate it. It means one of your principal articles of export has depreciated in value as compared with other things, but that has been true in many other countries. It would be a disadvantage, but how would it affect the principle?—The purchasing power parity theory, in its usual form, is true for long period effects, provided that there has not been any substantial change in the relative values of the various goods concerned. But it is quite possible for the exports of one country to become relatively more valuable than another, and for that change not to show itself in the index number, which is based upon commodities both import and export, and home produce. So that I don't feel that you can calculate simply by means of the purchasing power parity as to what is going to happen with the gold standard with regard to the future value of the currency. That is one thing, at any rate, that one has to be cautious about. Then, of course, there is the further point that such an effect only shows itself slowly. It is a question whether, if the gold standard were restored, prices would still remain at anything like their present level. The deduction that one might be able to make on the strength of the purchasing power parity, is a long period deduction. There might be a good many months' departure from it. For instance, at the present moment, between England and the United States the English currency is over-rated by several per cent., isn't it?

4246. Yes?—Over 5 per cent. I should say, and it is a question how long that state of things may last.
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4247. But if you take the curves over a considerable period of time, you will find a pretty close tendency for exchange and purchasing power parity to move together?—Yes.

4248. There is a lag in each direction. Prices lag behind exchange on the upward movement, and they lag behind exchange on the downward movement; but, after all, given a reasonable amount of time, they seem to move together?—That is so. It depends what question it is one is trying to answer—if it is a long period effect or not. But I suppose what you are really thinking of is whether, if South Africa resumes gold payments, it would be able to keep it up. Is that what you have in your mind?

4249. The first question, of course, is, should South Africa go back? The other is, if she does go back, would she be able to maintain her specie payments? The one is tied up with the other. Do you see any reason why South Africa should not be able to maintain convertibility if she once returns to a gold basis?—No. I can't say that I do. As you say, the currency is quite sufficiently deflated, if one may judge by the level of prices. And so far as providing the actual gold is concerned, we are in an exceptional position. I think it has been argued that the restoration of gold payments might lead to a run of demands for gold which the banks could not immediately meet; but it seems to me that would only mean that some of the gold production in South Africa would have to be diverted to meet the demand in question.

4250. The annual production here is something like £40,000,000 sterling, and your total amount of gold in the country, I believe, in the banks, is something like one-quarter of that?—Yes.

4251. So, if you would divert a very small amount, you would make up any probable deficiency?—Exactly. If you wanted to strengthen the gold reserves by 100 per cent., you have only to use three months' output of the mines.

4252. Is there any reason why, if South Africa wanted to do so, she could not do it, if she were willing to pay a little more for that gold than the outside world was willing to pay?—I don't see any reason.

4253. Gold seeks the best market, like anything else?—Yes. If persons who had claims on the banks in South Africa wanted to convert them into gold, and export them for any reason, the amount, it seems to me, could not exceed more than a fraction of the deposits. The whole of the deposits in the South African banks are at present about 60 millions; that is, less than two years' output of the mines. You cannot imagine any very large fraction of those deposits being exported.

4254. If people demand gold, if people want to take gold out of the country, it is because gold is more profitable outside the country than inside. The more they take out the more valuable would be the specie that was left here. It would very soon check itself?—Yes.

4255. Do you see any reason why this country should be denuded of its specie because of a foreign specie demand, any more than it should be denuded of its mealies because of a foreign demand?—Supposing one put it at the outside that one-quarter of the banks' deposits were exported, that could quite well be met by the existing stocks of gold, and the gold produced, say, in the course of three months.

4256. Before the war, do you know of any time when the gold specie of this country was drawn out and exported to the extent of one-quarter of the deposits of the banks, or even 10 per cent. of the deposits of the banks, at any one time?—No.

4257. Before 1914 most of the world was on a gold standard, and the number of countries that might draw gold was very large. Now, only a very small part of the world is on the gold standard, and the number of countries that would be exercising a monetary pull on your gold specie would seem to be small?—I don't know if there might not be more profit to be made in that way; but anyhow it seems to me quite out of the question that there could be a demand to that extent. Some figures about
Sweden have been quoted lately in the papers—in the Times of this week, I think. Two or three millions sterling, I think, of the Swedish stock of gold had been exported since they resumed conversion.

4258. Referring to the Swedish situation, when we arrived in this country in the early part of December, there were newspaper accounts—emanating from the Standard Bank here—to the effect that Sweden was having serious difficulty in maintaining the gold standard—based upon newspaper items appearing in London. We were anxious to find out what the situation was, and under date of 15th December we sent cables to this effect: to Professor Gustav Cassel, of Stockholm, and to the President (Mr. Victor Moll) of the Riksbank of Stockholm:

"Newspapers here say Sweden having serious difficulty maintaining gold convertibility. Is this true?"

I also sent a telegram to Governor Strong, the governor of the Federal Reserve Bank of New York, to the same effect, so as to get the judgment of the best authority in New York on the situation, as viewed from the New York end. These are the replies that we received, the first one from President Victor Moll:

"Maintaining gold convertibility has hitherto not met greater difficulties. Gold exported in moderate quantities for industrial requirements abroad. We can easily restore our gold reserve at small cost. Our profit for 1924 will probably be somewhat greater than for 1923. We have had no reason to consider the question of raising our discount rate. Looking for further development without any anxiety."

4259. (Professor Lehfeldt.) What is the discount rate in Sweden at present? (Dr. Vissering.) At the moment, if I remember correctly, it is 5½ per cent.

4260. (Professor Kemmerer.) This is the reply from Professor Cassel:

"Germany's demand for gold raised value gold above dollar parity thus Sweden lost gold although dollar within gold point. However credits New York pressed dollar generally Europe. Dollar Stockholm now half per cent. below par thus gold reserve defended. No serious difficulties."

This is the reply from Governor Strong:

"Have heard nothing unusual about subject your cable. An interested banker informs me that while some difficulty experienced and expected, position adequately maintained and improving."

(Professor Lehfeldt.) Have some of your witnesses put forward the view that there would be such a demand on gold that it could not be supplied?

4261. (Professor Kemmerer.) We have had a number of witnesses—one in particular—who maintained if this country went to the gold basis, that the gold would be taken out, all her specie might be drained off, in a month's time possibly?—Did he give any detailed reasons why that should be the case?

4262. One of the reasons given was that in 1920, when the great slump took place in world prices and when exchange here went to a great discount, that is, when sterling depreciated in value in terms of the South African pound by about 7½ per cent., there was quite an efflux of capital, he maintained, and that the banks' big balances in London were drawn down very heavily. And it was further maintained that if a situation of that kind occurred again, this country might be called upon to put out £25,000,000 of sterling, because people here would try to transfer their money in large quantities to Great Britain, to take advantage of the exchange; and in that way your gold standard might be broken down within a few weeks' time after you returned to convertibility. We would like your judgment on that argument?

It is not at all what I have given. First of all, I don't see that there would be sufficient inducement for such a demand; and secondly, if it did arise to the extent of 20 to 25 millions, it could be met. It might involve a few weeks' delay. You
might have, in the extreme case, a suspension of gold payment for a short time; but it seems to me quite clear, if South Africa bought its own gold from the mines, that it could meet, in the course of a few months, any demand of that magnitude that could possibly arise.

4263. Have you any idea of what the total amount of money, notes and gold and silver, in circulation in this country, is?—Only very roughly. The note circulation is about eight millions.

4264. (Mr. Middleton.) Including nearly three millions of Reserve Bank notes held by the commercial banks, perhaps eleven million, seven hundred thousand; subsidiary coin probably not less than three millions. It is impossible to arrive at the exact figure for notes owing to obscurity in the Reserve Bank’s weekly statement and in the returns of another bank.

(Professor Lehfeldt.) Is it as much as that?

4265. (Professor Kemmerer.) And the amount of gold held in reserve by all banks is over eleven millions?—Yes. There may also be a considerable amount of gold in hoards.

4266. That is held back. The actual circulation then would be, perhaps, ten or fifteen millions?—(Professor Lehfeldt.) Yes.

4267. Did you ever hear of a country that lost two-thirds of the amount of its gold circulation if it was not pushed out by some internal inflation on a large scale?—Of course, you must take into account the deposits of the banks; not only the circulation.

4268. Yes, but I am speaking of this: Did you ever hear of a country that lost two-thirds of its circulation, or even half its circulation, within a period of a year’s time, unless it inflated pretty heavily, and pushed it out?—What was the position in Egypt after the slump, after the war? That is the most extreme case I can think of.

4269. I cannot give you the figures, but there had been a very great inflation in Egypt during the war?—Yes.

4270. I am wondering if it isn’t true that, as a general proposition, when a country loses its gold in any considerable quantities, it loses it because it pushes it out through inflation, rather than because the world pulls it out in international trade?—Oh, yes, I quite agree with you; in fact, it is what I began by saying, that I cannot conceive of any circumstances in which, say, one-quarter of the claims on the banks could be cashed and taken out of the country.

4271. If gold tended to go out in any considerable quantities, the result would be that the bank reserves here would decline, that the banks would naturally put their discount rates up; that exchange would soon decline, that is, as measured in South African pounds, and prices would tend downward slowly under such pressure, would they not? The longer the outflow of gold continued, the higher the value of gold would become here in comparison with the value of gold in the outside markets. Is that true?—Yes, that is true, but I think the influence of the quantity of money on the local prices in the country would be rather slow.

4272. But there are certain things in any market which are highly competitive, that are likely to be affected, pretty quickly, are there not?—Yes.

4273. One of the first prices that would be affected would be the price of sterling exchange in terms of South African pounds, and the farther the rate went down the more it would tend to check this outward movement, would it not?—Yes. Of course, the more fundamental effect would be on the price of commodities. There is only a limited number of those which are competitive as between this country and others; but still, there are such commodities.

4274. You only need to effect a small marginal difference to have a big influence on your movement of gold?—Yes. For that reason, I should expect such an influence to be rather slow; but it would certainly exist. I don’t take the alarmist view as to the gold that would be drawn from South Africa.
There was never any difficulty that you know of for some time, perhaps a generation, before the war, in maintaining the gold standard here?—No.

Aren't you in a better position now than you were then, at least in two respects? Firstly, you have a mint here, where you can coin your gold; secondly, you have a Reserve Bank, which is ready to rediscount for the other banks, and which presumably is in a position to conserve the market in time of threatened danger?—Yes, that is quite true.

Would the fact that England was on a sterling basis which was fluctuating and perhaps declining, while you were on a gold basis, strengthen England's position to draw an undue amount of gold from you, or would it weaken her position in that regard?—I don't know that I could say. One comes back to the fact that the amount to be drawn would be limited. It couldn't amount, I think, to a dangerous magnitude. Of course, that raises the question about the import and export of capital, which is one of your headings in the questionnaire.

I want to be sure that we have your opinion on this correctly. Are we correct in understanding that you believe that, if this country should go back to the gold basis on 1st July next—whether it is wise or not we will leave open—but if it should go back, it would be able without serious difficulty to maintain that gold basis in the future?—Yes, I do think if it decided to go back, that it would have no serious difficulty in supplying the necessary gold against any claims.

The next question is, do you think it is advisable to go back?—Well, the chief point that I would like to make in that connexion is this: That it is not good for a small country to have a currency which is isolated in its standard, to have a currency which is not at par with some important section of the world. Now, South Africa has the choice of being at par with England, sterling, or at par with those countries which are using gold. In either case, it would have a currency which was freely convertible into that of a larger country or a larger section of the world. That, I think, is an important advantage. At the present time, or let us say just recently, South African currency has been on neither level. It has neither been equal to sterling, nor equal to dollars. I don't hold very strongly either way as regards this question of returning. It seems to me that there are arguments on both sides in favour of returning to the gold standard or of adopting what appeared to have been the policy of the late South African Government, that is, of maintaining parity with England. But I think there is nothing to be said for having a standard which is intermediate between the two.

South Africa has been following sterling recently for a period of years, more or less closely, sometimes with a lag in one direction, sometimes with a lag in the other. But it has been following sterling more than anything else?—Yes, we have been following sterling more closely than gold, but not closely enough.

You think then, that it is a choice whether this country should decide to tie up to sterling, or to gold?—I think it would be wise to do one or the other.

If sterling continues where it is, or if sterling advances toward parity at the rate she has been advancing during the past year, or if sterling advances toward parity at even half that rate; in any case this country would be at parity by 1st July next. It is there now. And in any one of those cases sterling would be so near parity that it would not make a great deal of difference, would it?—No. Of course, there would be no question to answer in that case.

Then the real question is whether, if sterling should turn around and go down again in its value in terms of gold, we'll say, as it did in 1923 or as it did in 1919 and a number of other times, this country should be prepared to follow it on that downward course wherever it went. Do you believe that whatever attitude this Government should take, or should decide to take, that it ought to decide promptly and announce its decision to the public,
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so that the public would be in a position to make the necessary adjustments?—Oh, yes, I quite agree with that. I think it should make up its mind to a policy, and state it.

4284. Very soon?—Yes. There is no reason for delay that I can see.

4285. In that case, this country should say in the very near future: "Either we are going to tie up with gold on 1st July next regardless of what happens to sterling, or we are going to tie up with sterling on 1st July next, hoping that sterling will go to gold parity or remain practically fixed with gold, but if it doesn't we are going to follow sterling wherever it goes"?—Yes, I think either of those policies would be better than drifting indefinitely between.
The departure from sterling has mostly been only seven-eighths per cent. difference between buying and selling rates quoted on the same day, with the banks charge a high commission on transfers. That state of things did not exist before the war—It would be reduced to something in proportion to the cost of transfer. The effect is to make the banks charge a high commission on transfers. They charge seven-eighths per cent. difference between buying and selling rates, which is quite prohibitive as regards the frequent transfer of floating capital. That state of things did not exist before the war when the gold standard was in force; and I don't think it exists with regard to Egypt at the present time. Egypt is practically at parity all the time.

4286. (Dr. Vissering.) What was the margin between the buying and selling rate before the war?—I forget.

4287. (Mr. Middleton.) About a quarter per cent., I think?—I think it was something like that.

4288. (Professor Kemmerer.) Do you think this present margin is justified?—I don't know whether it is justified from a banking point of view, but I think it is very undesirable for the country.

4289. You think it is due partly to the uncertainty of exchange fluctuations?—Certainly.

4290. And it would be greatly reduced if both countries would return to gold parity?—It would be reduced to something in proportion to the cost of transfer.

4291. Suppose only one country should return to gold parity you would have one fluctuating currency. Would that reduce them at all?—I think so.

4292. (Dr. Vissering.) I understand that the banks in Amsterdam calculate that the export point of gold from New York to Amsterdam, in terms of guilders, is now 2.46f. As the nominal gold parity is about 2.4S, the margin in one direction is a little more than one-half per cent.; so the margin between the import and export point must be a little more than 1 per cent., and that is in the open market with free competition between the banks?—At any given moment what rates does your bank quote for a dollar exchange? What are the buying and selling rates?

4293. That depends on the circumstances?—Supposing at a certain moment you would be willing to sell a draft on New York at 2.47. At what rate would you buy a draft from New York?

4294. We would be ready to sell it at 2.49f.—You would charge as much difference as that?

4295. And we would be ready to buy for 2.46f. But that is rather an intricate question. We don't want gold. We have already sent more than one hundred millions of gold to America. The proceeds still remain in New York. Therefore, we are very strong. By avoiding gold movements in both directions we save the cost of shipping, insurance, etc. Therefore, it is to our advantage to buy in the open market at 2.47 rather than to keep gold at 2.46f. Do you understand that?—Yes, I understand that. When you have a competitive market in foreign exchange, you see the buying and selling rates quoted on the same day, with a very small margin. I cannot remember the figures now.

4296. The margin of T.T. is much smaller, of course?—Would it be equal to, say, one-quarter of the difference between the export and import points?
4297. Something like that, yes?—The import and export points in South Africa are different by a little over one percent. I should think one-quarter per cent. would be a reasonable margin between buying and selling rates, as compared with seven-eighths which the banks charge at present. Before the war the margin was actually nine-sixteenths. Even nine-sixteenths is higher than it should be. The banks here have never had a competitive market in this matter. Before the war there were only two big banks, so that exchange is not as free and as cheap as it should be. It seems to me if there were anything like a competitive market in exchange that the margin would drop certainly down to a quarter per cent.

4298. (Professor Kemmerer.) This country has been following sterling more or less closely for a number of years. If she should decide to follow sterling now, and if, as we don’t expect, sterling should turn around and go down again next year, as it has done several times in the past, that would mean she would have to follow sterling on the downward move. That would mean inflation in this country, would it not?—Not necessarily.

4299. Do you think you could permit the South African pound to follow sterling down, if it depreciates in terms of gold and in terms of goods, and not inflate?—There is a difference between depreciating in terms of gold and of goods.

4300. Yes. Gold has been fairly stable in value, i.e. in purchasing power, during the last two or three years. In asking this question I am assuming that gold continues as stable as it has done during the last four years, and that sterling, if it does go down, is actually depreciating in value in both gold and goods. If the change is not a depreciation in sterling, but an appreciation of gold, that is an entirely different story. But I am assuming a depreciation of sterling as you had it during 1923?—If there were a substantial depreciation of sterling in terms of goods, and it lasted for some time, that might lead to inflation here. But before one considers that one ought to consider whether gold or sterling is the more likely to remain steady. What has been the history of the last two or three years?

4301. Gold has been more stable than sterling, but sterling has been fairly stable in the last two or three years, apparently?—Have you got diagrams?

4302. We have not. We went into that question with the index numbers, and that was apparently the evidence. I always use in these comparisons, as far as possible, the Bureau of Labour Statistics’ index numbers, because they are more comprehensive than the others. Here are the Federal Reserve Board index numbers—which are not as comprehensive—from 1913 to the present time for the United States, England, and France handed to Professor Lehfeldt?—During the years 1923 and 1924, up to September, according to these figures, the fluctuation in the American index was between 154 and 170; that is, 16 points. The fluctuation in the English index number was between 164 and 180, which is 16 points, on a somewhat higher average; so that that is slightly less if anything. But it does not make much difference. The conclusion I draw from this is that the stability has been about the same in both cases.

4303. I think you will find, if you take the Bureau of Labour index numbers by months, and if you take the Board of Trade index numbers by months, that for the last three or four years there has been a somewhat greater stability in the American figures than in the British figures. But it is true that both figures have been relatively stable as compared with previous years?—I don’t doubt that your arithmetic is correct, but there is not much difference in it. You cannot say that the one currency is markedly unstable as compared with the other.

4304. This is true, I believe, that since about early 1921 there has been no considerable appreciation in the value of gold as measured by its purchasing power in the free gold market in America?—No.
During this past year we have continuously stuck in the neighbourhood of 150, with slight variations. My point is, I think during these last years we have been considerably more stable than Great Britain has—I don't know that that is the case.

3406. Coming back to this earlier proposition: If this country should tie up with sterling and if sterling should depreciate in value in terms of commodities, would it be necessary for this country to inflate in order to follow her?—It might be, if the depreciation were considerable.

3407. If it depreciated in terms of commodities, would not it be necessary if the price level here at all followed the sterling price level? The evidence we have here in regard to your imported goods indicates that you certainly follow the sterling price level pretty closely?—Yes. By inflation you mean a change in the price level in England. You would get different results according as you estimate the value of sterling on the basis of the English price level or on the basis of exchange with foreign price levels, particularly American.

3408. I am assuming that a country estimates it on the basis of its own price level?—Well, the English price level may rise, of course, but all the fluctuations that have taken place in the last three years have been the sort of fluctuations that come with good and bad trade. There is no question, I take it, in England, of a real inflationary change?

3409. Isn’t there a considerable group of people that favour inflation to help the unemployment situation, and for other reasons?—Well, that is argued, it is true. Let us take the two points separately. If there is just that natural rise and fall in prices which occurs in good and bad trade, not accompanied by any actual deliberate increase in the amount of currency, then I think that the effect of such a change on the price level of South Africa would probably be limited to the price of imported goods.

3410. Don’t you think the price of goods here, with a considerable lag, would tend to follow the movements over there, if you tied up with sterling?—The lag would probably be so great that the rise might have turned into a fall by the time it happened. I don’t think the ordinary rises and falls that you get as a result of good and bad trade, when translated into another country, will produce so much change in local prices as to necessitate an increase in the amount of currency.

3411. Here is a chart recently prepared by the Bureau of Census and Statistics for us, showing the Economist index numbers of Great Britain, the index numbers here of imported goods, and the index numbers here of South African commodities. The graphs seem to show a fairly high degree of correlation, but with substantial lags at various points?—You cannot draw any conclusions from that extraordinary outburst just after the war.

3412. But that covers a long period. That is ten years?—Yes but if you took corresponding charts of normal times, not war time, I don’t think you would find that the price of South African products followed at all closely the price of imported goods. But on that point I express myself with hesitation. I would like the statistics if they are available. But that is my impression.

3413. You have no statistical evidence of that?—No.

3414. It is a remarkable fact in our own American statistics that if you take the index numbers of American wholesale price for a long period of years and plot them with the Canadian price and British prices, there is a very remarkable correlation?—Well I may be wrong on that point—I haven’t gone into it—but my impression is, as I was saying just now, that the reflected effect on the currency of a country due to good and bad trade is another, is not likely to be so great as to necessitate any real inflation. That is to say, supposing prices rise in England or account of a boom in trade, which caused South African import to be dearer; although that might have some effect on the price
of South African goods, I don't think the general rise of prices in South Africa would be serious, or would lead to anything worth describing as inflation in South Africa. After all, you hardly describe it as inflation in England, supposing the movement of commodities there. You get, of course, changes in the amount of bank deposits, and to some extent changes in the amount of currency, but nothing serious, and the effect produced in a second country by the changes in the trade of the country with which that second country deals largely, would be, of course, considerably reduced.

4315. As I have said, our evidence in America is that there is a very close correlation between British prices and our own over any considerable period of time?—You were asking, would the possibility of sterling depreciating in terms of commodities cause an inflation in South Africa? One must use one's words in a careful sense there. If by inflation you mean a change in price level, I have no doubt it would produce some effect.

4316. The point I am trying to get at, and which perhaps I have not made clear, is this: This country has the choice of one of two things, to tie up with sterling, or to tie up with gold. If sterling continues at practical parity with gold, and stable in commodities, they amount to the same thing. If, on the other hand, the gold value and the commodity value of sterling should go down during the next year or so, and this country should tie up with sterling, then it would seem to me necessary that this country would, with some lag, be compelled to follow sterling on that downward movement; and that would mean, if she did follow her down, that she would have to inflate in order to express this depreciation?—You mean actually to issue more currency?

4317. Yes. If that decline in the gold value of sterling were due to the appreciation of gold, of course this country would not have to inflate at all. She would be remaining with sterling and with goods. Sterling would be constant, or fairly constant in value, and gold would be going away from it. That then, raises the question as to the probabilities. It is always dangerous to guess. But if there is going to be a decline in the gold value of sterling during the next year or so, is that more likely to take place, taking the whole situation in its entirety, through a depreciation of sterling or through an appreciation of gold?—I am not able to prophesy.

4318. Are you able to make a "scientific guess"?—It is quite possible that American exchange might drop, that sterling might drop relatively to gold merely as a reaction from the present situation in which sterling is raised above its purchasing power parity. In that case, it seems to me that South Africa could follow England without any marked effect on its own trade and currency. If, on the other hand, there were to be a marked rise of prices in England, due to some circumstances we do not at present foresee, that would have more reaction on South Africa, and might be of some importance. Of course, one has to bear in mind that in years gone by, when all these countries held to the gold standard, there were fluctuations of prices of the same magnitude as have been happening recently. So that I don't see the risk of any dangerous inflation following such a depreciation of sterling as one may reasonably expect.

4319. This chart for the cross rate between London and New York by months from 1914 to 1924 does show very great instability in the cross rate?—Oh, yes, in 1920 and 1921.

4320. Yes. Sterling in the early part of 1923 was very nearly as high as it is now. Then she turned around and went down about 10 per cent. Of course, the proposition we are thinking of is this: If this country is going to tie up with gold, or tie up with sterling, if it must decide now which it is going to do, which offers the greater probability of stability in the value of the unit in this country? Because I think you will admit, will you not, that either inflation or deflation is a bad thing, and it would be unfortunate for this country if its decision in this matter should
mean that it would have to go through a considerable period of inflation again, followed by another considerable period of deflation. The main consideration is to get a reasonably stable unit. What we want to know is which course is more likely to give reasonable stability in the value of the South African monetary unit, and to avoid the necessity of these wide fluctuations, with all their evil consequences, that this country has recently gone through in its period of war and post-war inflation, and then the long period of post-war deflation?—I quite agree that the aim is to get local prices stable. But I am not certain as to which of the two standards is going to secure that. You pointed out from that diagram that the relative value of gold and sterling has changed in the course of the last year, a little over 10 per cent. Now those fluctuations are not attributable exclusively either to a change of American prices or to a change of English prices. They are very largely due, at any rate in recent months, to the large export of capital from America; and the change in the internal prices of both countries has been much more limited than the change in the rate of exchange.

4321. Exactly.—Now, if South Africa associates itself with either of these two standards, it would not be exposed to a change of internal prices necessarily commensurate with the relative change of the two. That is to say, you cannot look up upon one of these standards as fixed, and say that the other one is fluctuating with respect to it. They both fluctuate with respect to goods, and they fluctuate with respect to one another in a way which is not altogether attributable to their fluctuations with respect to goods. And, therefore, it seems to me that, as far as the standards in themselves are concerned, there is about an equal chance of stability, providing that either of them is adopted. I don't see any reason why sterling in England should fluctuate more than dollars in America.

4322. Here you have in the case of dollars a gold standard in which your standard of value is expressed in a world commodity, where the possibilities of manipulation would seem to be much smaller than is the case where you have a paper unit which represents a managed currency, and which is of local circulation only, and which would seem to be more likely to respond to the ups and downs of political forces and the personal inclinations of those in power. Isn't there a greater degree of stability probable when you tie up with a commodity like gold, than when you tie up with a managed paper currency standard under present conditions, even with the best of management?—Well, it depends on the degree of manipulation there. If there were serious risk of a deliberate manipulation of the British currency, then of course it would be exposed to decidedly more risk than gold. Gold has that advantage over any paper currency, that it contains real value, and therefore cannot be manipulated in the same way. But in the actual state of the world at the present time, I don't see any serious risk of a deliberate manipulation of English paper currency.

4322a. Leaving out deliberate manipulation, don't you think there is a greater probability that a managed paper-money currency not tied up definitely to gold will actually fluctuate in value if you take it over a term of two or three years now, in the present situation of the world, more than a gold currency will fluctuate in value?—Paper currencies in general? French and Italian and the like?

4323. You are going to make an exception in the case of Great Britain?—Yes, I make an exception in the case of Great Britain. It seems to me there are very strong influences there in favour of a stable currency. If it is to be a managed currency, it will be one managed in the interests of stability. That is on the one side. And on the other side, although you have undoubtedly advantages in gold in general, you have the exceptional position that the gold standard is only in use in one of the large countries of the world.
4324. The gold standard is now in operation, of course, in the United States. Canada is practically at gold parity, and has been maintaining herself very well there. Sweden is practically back to a gold basis. Germany has been maintaining her parity very well for some time, and is practically on a gold basis. Then you have an increasing number of smaller countries that have come back to the gold basis lately. There seems to be quite a strong movement in the direction of returning to the gold basis, and paper-standard currencies are representing a decreasing percentage of the total?—Yes, I think the world does seem to be tending in the direction of restoring the gold standard generally. And, of course, it is the policy which I have myself advocated in a general sense. But if you ask what is likely to be the course of prices in the next two or three years, it does not seem to me that the risk of a change in sterling prices is appreciably different from the risk in gold prices.

4325. You don't think so?—I don't think so in the existing situation, and taking the immediate future into account.

4326. I have here those figures that we referred to a minute ago, that is, the Board of Trade figures by months for England and the Bureau of Labour figures for the United States, and I can give you the ranges here of these figures by years. I think I have the correct figures, but I will have to check them later. For 1922, the Bureau of Labour figures in the United States varied from a low of 138 to a high of 156, which is 13 per cent. For England the Board of Trade figures for 1922 varied from a low of 1543 to a high of 1640, which is 6.3 per cent. For 1923, the Bureau of Labour figures had a range from a low of 150 to a high of 159, 6 per cent. The Board of Trade figure varied from a low of 1533 to a high of 1634, 6.1 per cent. For nine months of 1924, the Bureau of Labour figures ranged from a low of 145 to a high of 152, 4.8 per cent. And the Board of Trade figures had a range from a low of 1626 to a high of 1670, 2.7 per cent?—[After calculating.] The advantage is on the side of England.

4327. The difference is very slight, and this does not include 1921?—The difference is very slight. There has not, in the last three years, been any considerable advantage in stability on either side.

4328. Then the important question is whether, as to the future, this country is likely to get greater stability by tying up with gold, or by tying up with sterling?—Yes.

4329. It would seem that a currency based upon gold in the free markets of the world would have a greater probability of being reasonably stable in value over a period of years than one tied up with paper, which was to a greater or less extent managed, we'll say?—Yes. That is one of the questions involved. You are quite right in pointing out that the arguments on the side of gold are getting strengthened, because the use of gold is beginning to spread to other countries. The danger which existed a year or two ago of the United States getting overshadowed with the amount of gold seems to have disappeared. The United States now is not importing gold, and it looks as if that risk had passed. And, therefore, I think you may be quite correct in saying that the stability of gold is likely to be greater in the next few years than it has been in the past. But, as I say, with regard to South African prices, I don't see any important difference in this respect between the two possibilities. But there are certain other arguments that have to be taken into account. First is this, that South African currency is on the gold level at present. To get it on the sterling level would mean certain adjustments, certain action. It is better not to have to do that. The advantage is on the side of gold in that respect, because we are there practically. But on the side of sterling, the advantage lies in the fact that South African trade takes place practically all through London; and, therefore, all the immediate associations involved are with sterling. It is easier, more natural, for South African currency to be maintained on a level with sterling than with gold, so long as England does not use gold.
4330. Aside from England and Egypt, and with some qualifications, Australia, there are practically no countries in the world to-day that are on the sterling basis, are there?—No, but practically all South Africa's exchange business is done through London.

4331. I want to make the point that if you stick to sterling, and the world tends to move back toward gold, as it is moving, you will find yourself more and more isolated in your currency relations with all the rest of the world, except Great Britain?—Yes, that is true in a sense, but you see nearly all the transactions that are actually carried out from South Africa are financed through exchange on London.

4332. You spoke a minute ago of the bulk of your trade being with, or passing through Great Britain. Of course, that is true, but it is also true, is it not, that of your two principal products of export—gold and diamonds, which, together, during the last twelve years have constituted about 65 per cent. of your total visible exports, probably two-thirds of your diamonds and the great bulk of your gold in that time have gone to America? England has only been an entrepot, or a go-between in the movement; and the real final consumer, as far as you can have a final consumer, has been America. Therefore, in the sale of those goods, you have only passed one step further the disadvantages of an unstable exchange, because, in getting a stable exchange with England, you have lost stability with the United States, and there has not been a stable exchange between England and the United States. So in the sale of those commodities, to the final market, you have been involved in an unstable exchange continually?—Yes, but first of all the sale of gold to America is an abnormal condition. I don't think you can quote the experience of the last three or four years as regards the future. At present, India is taking the gold more.

4333. That has been only for a few months?—Yes. I don't know what will happen in the course of the next few years. You cannot say that in general it all goes to the United States.

4334. You can say that, if England does not go to the gold standard, the probabilities that a large part of the gold will stay there are small?—Yes. But any way, gold is bought by large sections of the world, and is likely to be. That is one thing. But what immediately concerns the South African trader is the immediate disposal of the product. Its ultimate consumption really does not matter.

4335. After all, the immediate disposal is determined by the ultimate consumption. When the American market, as it did during the war, turns against diamonds, your chances of making much of a disposition in England are small?—That is so, but what I mean is that the South African trader is concerned with the contracts that he actually makes for the sale of produce, and these contracts are mostly dealings with London.

4336. But isn't it also true that the contracts that London makes with him are determined by the world's demand?—That is London's affair.

4337. It is this country's affair, too. If the demand falls off for diamonds in the United States, you immediately have a falling off in the demand for your diamonds here?—Yes. That does not affect the rates which the South African exporter gets for his produce. He is interested in the rate of exchange with London. Of course, he is interested in the question whether the diamonds are going to be exported at all. What really does matter here is, what is the rate of exchange on the centre with which he actually does business.

4338. I should think the thing that would matter would be the price at which those goods would be realized in the final market, and the amount of South African pounds that they would realize, after paying the various expenses involved in the marketing in South Africa?—Indirectly that may have some effect. But I think the argument is a sound one that the disadvantage of a fluctuating currency is greatest in regard to that country with which you do business.
4339. Yes?—That is to say, South Africa would suffer more by fluctuating exchange relations with London than with New York.

4340. Yes?—That is the only point I want to make.

4341. But it is conceivable that she might obtain stability of exchange with London at the expense of fluctuations in exchange, not only with New York, but with a considerable number of the other countries of the world, and at the expense of a stable exchange in her own country; that is, it is possible that by tying up with London, she might have to follow sterling down or up on an actual depreciation and subsequent appreciation movement; and that she would get that stability at the expense of an unstable price level, an unstable monetary unit at home for all her debts and all her accumulated savings, all her credits and wages?—It is possible, but I don't think it is likely. It is quite possible, of course, that gold might fluctuate so much in real value as to cause a change in South African prices if South Africa adopts the gold standard; although I don't think that is likely either.

4342. Gold has fluctuated considerably in the past, but gold has not often fluctuated to anything like the extent that managed currencies have fluctuated in the last ten years. We have not yet had your answer to the question, taking all these pros and cons into consideration—and I think this Commission realizes thoroughly that there are advantages and disadvantages on both sides—what should this country do? What is the wise policy, if it must make a decision now?—That is for you gentlemen to make.

4343. We are sending out an S.O.S. call to you. What is your judgment?—I have endeavoured to put the arguments that appeal to me. It is quite a strong argument that this country's currency is already on a gold level; therefore, to put it on a sterling level would mean a readjustment, which would be undesirable. There is the argument on the other side, which I think should not be forgotten, which I have just been putting before you, that our trade relations are much more intimate with England than with the principal gold-using countries; and therefore, there is less risk of internal disturbance owing to fluctuations in the dollar exchange if we take the side of sterling. For instance, Belgium follows pretty closely the business of France.

4344. (Dr. Vissering.) Unwillingly?—It may be unwillingly, but that is the actual case.

4345. They are regretting it very much?—The most important consideration to Belgium is French exchange. All the same, Belgium does not go back independently to gold because of its intimate relations with France. Of course, the French currency has been exposed to much worse fluctuations than the English, and it has had a bad reaction on Belgium, no doubt. But if Belgium had, let us say, tied itself to Italian currency, instead of French, that would have been worse for Belgium probably, because there is very little trade relation with Italy; and therefore it is of great interest to many people in Belgium that their monetary relations with France should not vary. They do vary, of course, to some extent, but not much.

4346. The Italian rate has been remarkably stable for the last three years?—But not the rate between Belgium and Italy. If Belgium had associated itself with Italy, it would have been an arbitrary thing to do, because its internal trade relations are with France, and it has quite rightly kept its currency more or less stable with that of France.

4347. (Professor Kemmerer.) But Belgium has paid a pretty big price for that in the ups and downs of the internal purchasing power of her franc in following France. See what has been happening in the price level in France in the last few years?—Yes, I am taking that as a bad illustration in a way. France is a country that you would not like to tie your exchange to. If I am right in contending that the chances of stability in sterling are practically equal to the chance of stability in gold, then it seems to me that it is a distinct argument for South Africa to associate itself with sterling because its business is done with England much more than with the gold-using countries. However, I am not
saying that that is a conclusive argument in itself. I am putting that down because it seems to me an important point on the one side.

4348. That point has been made by a number of persons. I think there is no question, but that is a point of much weight. But after all our decision is a question of what is the weight but on which side is the weight of the argument?—Exactly. That difficulty is to some extent relieved by the existence of the forward exchange market in London. You would expect the South African merchant to take advantage of that.

4349. Is there any reason why you should not have forward exchange operations in this country?—Perhaps not; I don’t know. The merchants don’t make as much use of it as they ought to do. That is no reason, of course, why bankers should not make use of it, and Stock Exchange dealers too; for that matter.

4350. Of course, the great bulk of the world’s business to-day, I suppose, is done between countries that have different currencies. A great deal of Great Britain’s business is done with the United States, Germany, and France. She has an unstable exchange with all of them?—Yes.

4351. The bulk of the world’s “foreign trade” is between countries on different currencies at the present time, yet the evils of fluctuations have not prevented a large business. Much of those evils have been eliminated through forward exchange contracts?—That is a valuable aid, certainly, in avoiding those difficulties. That, of course, reduces the importance of the argument based on keeping a stable relation with another country. That, perhaps, tends to make the balance somewhat in the direction of adopting the gold standard, because, although business is done here with London, it can be adjusted by means of forward exchange on the London market.

4352. Would it be correct to say, then, in summarizing the opinion you have expressed, that you believe, if this country should return to gold parity on 1st July next, it would have no serious difficulty in maintaining gold parity in the future: and, secondly, that while you think the arguments on both sides of the question of the desirability of returning to the gold standard are fairly strong, in final summary you think there is a slight weight of the argument in favour of returning to gold parity?—Yes, that is a correct account of my views. I think one should emphasize the point that this is such a favourable opportunity, because South African currency is at the gold level; and for that reason it seems appropriate to take advantage of the occasion. If that were not the case, one might have to reconsider the weight of the arguments on the two sides. But seeing that our currency is at a gold standard, that seems to make the argument in favour of keeping it there prevail.

4353. (Dr. Vissering.) There are three more questions I would wish to put regarding the whole working field of the Reserve Bank. Do you think the Reserve Bank should become more active in the open market, and should become more active so as to make its rates effective. From several sides a State bank has been advocated. What, in your opinion, is to be said for a State bank in preference to the Reserve Bank as you have it now? Thirdly, there has been the complaint that too little credit is given to agriculture, and a State bank has been demanded for the purpose of giving more?—I am not a banking expert, and have no experience to go by in this matter. As regards the first question, the position of the Reserve Bank is somewhat anomalous. It was intended to follow the American precedent, but the banking situation in this country is so extremely different. Here we have only two banks, and they have an understanding with one another in many ways, so that there is almost a banking monopoly.

4354. From certain sides also it has been argued that the Reserve Bank should only be a bankers’ bank, but I think it is a stupid idea that you should have a bankers’ bank in this country for one or two banks?—Precisely. The banks don’t want the
Reserve Bank. I take it the Standard Bank and the National Bank don't want to bank with the South African Reserve Bank. They can manage their own affairs. The situation seems to me so different from that in the United States, or even in England, that the analogy fails. You cannot expect the South African Reserve Bank to operate in the same way as the banks in America. I think one possible use of the South African Reserve Bank is to create more competition, instead of being a banker's bank as in America. What this country needs is some means of creating competition with the existing banks that have far too much of a monopoly.

4555. That would be desirable in your opinion?—I certainly think the South African public needs some protection from possible monopolistic action on the part of the commercial banks in one form or another. To take a particular example, there is this question of the charges for exchange, the difference between the buying and selling rates for exchange. I think it is generally recognized that that is excessive.

4556. On foreign exchange?—Foreign exchange, yes, the difference which they charge, seven-eighths per cent., between the buying and selling rates for cables. They put forward as an excuse for that the difficulty of providing against the present situation, against the fluctuations in exchange that occur at the present time. If our money were on a level either with gold or sterling, that reason would disappear. If we do go to the gold or the sterling standard, it does not necessarily follow that the commercial banks would reduce their charges. Having a pretty strong position, and having got used to charging seven-eighths per cent., it seems to me quite possible they would continue to charge that.

4557. Because the banks' clients are tied to them, they are not free to go to another bank?—No, there have been some attempts to get exchange by other methods, outside the banks.

4558. (Professor Kemmerer.) Isn't there quite a little business done between exporter and importer in direct dealings?—Is there? No doubt that sort of thing is stimulated. But have you any idea how much exchange is done that way?

4559. We have been told that quite a little is done, and that some merchants make a business of doing their exchange business in that way. But, of course, such merchants are pretty independent of the banks?—Quite so. But I don't think it amounts to a large fraction of the exchange business.

4560. (Mr. Middleton.) About 10 per cent. At one time the Government did a considerable amount of business in exchange; at least the Public Debt Office did?—Don't they do that now?

4561. I think not?—They do all their business with the banks?

4562. Most of it is done through the banks or by the Treasury.

4563. (Professor Kemmerer.) Do you think that it would be a proper function for the Reserve Bank to come in and deal directly with the exporters and importers in high-grade bills, and thereby force a narrowing of this margin?—I don't see why the Reserve Bank should not do that sort of thing, particularly if the commercial banks do keep up an unreasonably high charge. I am not in a position to judge how far their charges are justified in the present circumstances, but I feel pretty sure if the circumstances were modified by the adoption of either the gold or the sterling standard, that it ought to be possible to do exchange a good deal cheaper than at present.

4564. The banks here are carrying, and have been carrying, ever since early 1921, very substantial balances on the other side. They claim there are not facilities here to use them safely and profitably under the present conditions in South Africa. The bulk of those balances were put over there at times when the gold value of sterling was very much lower than it is now. If you take the bulk of the balances and consider their gold value to-day as compared with their gold value at the time they were put over there, the banks have made a very nice profit on the investment. So
that the argument that they advance, that if they should have to bring those balances back now at a moderate discount in case South Africa is stabilized on gold, they would be involved in a loss which they could not afford to take; that argument seems to lose much of its weight. Perhaps it is not so much that they would be involved in a loss, as that they would not make quite as big a profit as they had hoped to be able to make.—Yes, I think that is quite a fair way of putting it. It seems to me that unless the commercial banks can be induced to adopt a policy more favourable to the commercial world here, there is fair reason for the Reserve Bank to compete against them.

4365. (Dr. Vissering.) Now arises the great question, how can the Reserve Bank do it? I maintain always that “compete” is a very bad word to use. The object is not competition. The Reserve Bank does not do business merely in order to earn profits for its stockholders. It does so in the public interest. That is not a question of competition, although it may be done to a certain extent the same business. But how is the Reserve Bank to do business?—I take it the Reserve Bank could undertake the exchange business on such terms as they might offer themselves; and even if they only did it on a rather small scale, the example would probably compel the other banks to adopt the same terms.

4366. (Professor Kemmerer.) Isn’t this true, that a group of business men dealing with the commercial banks, and none of them except the Reserve Bank as their principal bank, cannot go to the Reserve Bank and get a line of credit and over-draw their accounts and all that? When one of these business men leaves the particular bank with which he has been doing his business, and goes to the Reserve Bank and buys his sterling there, or sells his sterling there, the transaction is a sort of side-issue; and unless he can look to the Reserve Bank for his credit in the future, and depend upon it, he may find himself in a rather awkward position by reason of his dealings with the Reserve Bank occasionally, because, when he comes back to his own bank for accommodation, his bank is quite likely to tell him something about what has happened?—Yes, that is the serious difficulty that arises in any attempt to break a monopoly. It would be the stronger customers of the bank who would be in a position to make use of any facilities offered by the Reserve Bank. I should think there would be a good many business men here who would be in a position to do so.

4367. (Dr. Vissering.) Who would be free?—Who would be free, whose position would be strong enough to be able to do that.

4368. (Professor Kemmerer.) And that is the type of paper the Reserve Bank ought to have?—Of course, the Reserve Bank would have to be careful to deal in only the best kind of paper. If it were possible for business men of good standing to get their exchange done on more reasonable terms, in that way I am inclined to think it would force the hands of the commercial banks after a while.

4369. (Dr. Vissering.) It might be possible for the Reserve Bank to get first class bills and telegraphic transfers in the open market?—I should think it would be practicable, although, as I say, I have no experience of banking, and I prefer the opinions of those who are more experienced in the matter. I quite see there always are difficulties in breaking into a well-established monopoly, yet it doesn’t seem to me to be impossible. It might lead, of course, to the Reserve Bank undertaking more of certain other kinds of business, but I don’t see any reason why they should not, provided they are very careful and recognize their public responsibilities. After all, the Bank of England deals with private individuals.

4370. (Professor Kemmerer.) There would not be very much chance, would there, of the Reserve Bank here making its rates effective, protecting the public in the matter of equity and justice in rates, and protecting the gold standard, unless it could come out in the open market and deal rather vigorously, so as to
enforce its rates in time of need?—Yes, that is so. If it leaves the two great commercial banks practically to themselves in the market it will not be able to bring them into line.

4371. And it cannot perform its principal function?—That is so. It is at the present time a very ineffective institution. It has done some useful work undoubtedly. In helping the reorganization of the finances of the National Bank no doubt it did something useful.

4372. (Dr. Vissering.) That was quite extraordinary, of course?—That was an extraordinary incident.

4373. (Mr. Middleton.) It unified the note system?—Yes. But as regards the real task of controlling the credit organization of the country, the Reserve Bank is not really in a position to do that at the present time. I don't think it is financially strong enough, compared with the other banks; and the fact that it neither acts as a bankers' bank, nor does any appreciable amount of banking for the public, leaves it in a very ineffective position.

4374. (Professor Kemmerer.) You speak of its not being financially, strong. The Reserve Bank has not been using anything like all the financial strength it has. And isn't it also true that in most countries of the world the central bank is either the sole depository of Government funds or by far the principal depository of Government funds? Here the central bank is not acting as a depository of Government funds at all. If the Government should make the Reserve Bank its sole or principal depository in the future, it would turn over to it a very substantial amount of funds, which would strengthen it very much in its possibilities of operating in the interests of the public?—Yes, that is so. You were asking about State banks: There is the example of the Australian Commonwealth Bank in that matter. It built up a large business in a short time, and got started principally by undertaking the Government's business, I think.

4375. (Dr. Vissering.) They were lending to the Government?—They took over the Government's business in the first instance, and with that as a start they succeeded in establishing quite a considerable amount of business in the course of the first 10 years.

4376. (Professor Kemmerer.) It is being reorganized now?—Yes.

4377. Do you know anything about the lines of its present reorganization?—I read the speech of the Commonwealth Treasurer, which was reprinted. That is all I know about it.

4378. Another reason that has been advanced as to why the Reserve Bank should operate in the open market, is to pay its expenses, and its dividends in normal times, when the market is out of the bank. Do you think there is any force in that?—I don't think that is important. A central bank in any case is not there primarily for making dividends; It seems to be in a position to make a reasonable dividend for its stockholders.

4379. While it isn't there primarily for making dividends, if you have a central bank that is acting only as a bankers' bank for the other banks, and if the other banks only come to it in time of emergency, you may have very long periods in which the bank is practically doing no business. A bank must earn its overhead expenses, and ought to pay at least a modest dividend on its capital, in order to live?—Yes, but the South African Reserve Bank has been doing that.

4380. Largely for the reason you mentioned a while ago, the rather temporary situation in which it was protecting and helping to reorganize a particular bank. But that is not a permanent basis on which to depend for a livelihood?—That is so. But I think that is a secondary point. After all, it does not need to make very much profit in order to pay a moderate dividend on its present capital. I think it should keep in mind the interests of the public primarily. And it certainly seems to me that in the circumstances of this country, it can be more useful to the public by offering certain facilities than by merely acting as a bankers' bank.
4381. You think it ought perhaps to operate more like the commercial central banks?—Yes, you mean on the analogy of the Bank of France rather than that of the American banks?

4382. Yes?—Yes, I see no reason why it should not do so. I do not think the commercial banks in this country are entitled to be protected from competition of that kind.

4383. (Mr. Middleton.) Have you ever examined the constitution of the South African Reserve Bank and compared it with the constitution of other national or central banks?—No.

4384. You mentioned that it was largely copied from the Federal Reserve Act of the United States. But to a very large extent the provisions of the Union Act were taken from reports issued by the Bank of Java. I drafted the Bill with one of the Java Bank's publications and the reports of the American National Monetary Commission beside me. Sir Henry Strakosch revised my drafts with Professor Kemmerer's "A.B.C. of the Federal Reserve System," borrowed from Mr. Samuel Evans, beside him. In the course of revision the draft got to resemble the Federal Reserve Act more closely—is that so?

4385. I think the name of the bank has a good deal to do with its being thought that, in its operations and dealings, its business is restricted in the same way as the American Federal Reserve Banks, but an examination of the Act will show that, except in the matter of the reserve requirements for other banks, tax on emergency currency, appointment of directors, and some other minor adaptations, it follows closely the constitution of the Java Bank and the Bank of the Netherlands, especially in the matter of reserves and the business which it may or may not do—I am afraid I don't know the constitution of those banks.

4386. (Professor Kemmerer.) There has been considerable agitation in this country over the question of the advisability of establishing a State bank here, one of the arguments being that a State bank would be useful in extending much-needed credit to agriculture. Have you any judgment on that subject?—I am not familiar with it, but I think it is the case that in most countries agricultural credit is very liable to abuse; and that any institution which is intended to increase the amount of agricultural credit, should be examined very carefully to see that it does not do more harm than good. Agricultural credit is undoubtedly necessary, and it needs special methods of its own. But I don't know that the commercial banks are to be blamed for not extending it more widely. It is a dangerous kind of credit. And to establish an institution principally with the view to providing more agricultural credit, I should think might be a very rash undertaking. It is so liable to abuse. I don't say that there is no advantage to be gained, but it would certainly need to be examined very carefully. I should be afraid that a State bank that was established with that motive would lend itself to abuse.

4387. (Dr. Vissering.) In your opinion there is no need for a new institution for such a purpose?—No, I take it that if necessary the Reserve Bank is in a position to extend a certain amount of credit for agricultural purposes. Is it not the case that it is entitled to discount agricultural bills?

4388. (Mr. Middleton.) Yes?—Of course, that does not cover the whole ground, but there is also the Land Bank.

4389. Anything else would require something in the nature of fixed capital?—Yes, it is not work that is suitable for a central bank.

4390. Nor for a commercial bank?—Only for a commercial bank in limited directions. I don't think that the central bank of the country would be the right body to handle business of that kind. If it were to try to do so, it would very likely lead to excessive credit of an undesirable character, which would not, in the long run, help the farmer, and would very seriously injure the credit of the central bank. It seems to me that the argument for a State bank on the ground that there is something of a banking monopoly in this country is one which has value in it, and should be carefully considered.
In that case, would it be desirable to establish a State bank for that purpose, or would it be better to extend somewhat the functions of the present Reserve Bank, and encourage it to come out and more vigorously compete with the banks in the open market?—I think the present bank would be in a position to do so. Possibly it may need some modification, but it does not need any radical change that I can see.

Do you think that would be preferable to establishing a State bank for that purpose?—It depends on what you call a State bank. The arguments for it vary from getting more competition on commercial lines to the wildest schemes for giving credit to everybody.

Do you think there is room for a reserve bank and a State bank both?—No, the Reserve Bank is a sort of State bank. If there is to be a State institution of that kind, I suppose it can be got just as well by developing the present Reserve Bank as by starting a new one.

Central banks are very often known as State or National banks—They are always more or less associated with the State.

Bankers advance the objection that if the Reserve Bank should come out in the open market and compete with them to any appreciable extent for the best-grade paper—and that is the only kind of paper the Reserve Bank should handle—the Reserve Bank would be in the untenable position of using their balances, which are kept in the Reserve Bank as their reserves, for the purpose of competing with them. In other words, the law would be compelling the commercial banks to turn their funds over to the Reserve Bank, and then permitting the Reserve Bank to turn around and use those funds to compete with them in their own field. What do you think of that objection?—It is all a question of degree. If the Reserve Bank had no other resources than what it got from the commercial banks, that might be a valid argument. There are various other ways in which the Reserve Bank could get funds, if it is to do open market business. It would, no doubt, attract deposits. If it is to do the Government business, that would provide it with certain funds, too.

The Reserve Bank could not function indefinitely as a Reserve Bank, even to serve the other banks, could it, unless it had powers to operate in the open market and actually did operate in the open market to a considerable extent. That is necessary for the service that it could render not only to the public, but to the banks themselves?—Yes, and so long as it does render service to the banks, when called upon to strengthen their position, I don't see why it should not use the funds it possesses in any reasonable way. It is not restricted to the function of protecting the commercial banks.

Do you think the name "Reserve Bank" indicates correctly the character of the bank?—The name is all right, I think. I don't know that it much matters.

Is it not more a central bank?—I should not like to say what the words do imply. I don't think the name matters much.

Do you think the title is a happy one?—Yes, it is all right. It is a sort of title that inspires confidence with the public and gives it a certain national character.

Would it not be better if it were called the Bank of South Africa?—I don't know that it is worth the trouble of changing. If it would satisfy people to give it a new name, I have no objection to raise.

Would it allay the agitation for a State bank?—I could not say.

Would it not be more convenient for the Reserve Bank to have the power to earmark gold to a greater extent, say, in London and in New York? With Germany it is considered safer to have their gold in Holland than in Germany.
at the present time?—By earmarking the gold you mean it would be actually set aside in reserve? It would not be entered as belonging to the Bank of Holland?

4403. No?—It is actually sold.

4404. Yes, the other party is the proprietor?—That is quite an interesting case. I should say with regard to the South African Reserve Bank that it should be entitled to hold its gold wherever it is most useful to do so.

4405. For instance, in London?—I see no reason why it should not keep part of its gold in London.

4406. (Professor Kemmerer.) If it is to redeem its notes and its deposits here in gold coin on demand, it would seem rather important that it should keep a fairly substantial reserve in gold here at all times?—Certainly.

4407. If it is entitled to redeem in gold drafts, that is a different thing?—I take it it would be bound to redeem in gold on demand. But a reasonable banker would, of course, make a provision against that. It does not follow that the Reserve Bank is bound to keep in South Africa the gold equivalent of all the notes that are issued.

4408. (Dr. Vissering.) Now they are allowed to keep one-quarter only of the fixed legal gold reserve requirements abroad?—Yes. That is a technical banking point. I don't know what precisely would be convenient, but I don't see any reason why the bank should not keep its resources partly in the principal foreign centres, if it is useful to do so.

4409. (Professor Kemmerer.) You think, though, that the notes should be redeemable in gold coin here on demand?—Oh, yes, certainly.

4410. (Dr. Vissering.) That means you put gold coin into circulation?—You must keep in the Union a sufficient stock of gold to meet that liability.

4411. In circulation, or only in the vaults of the central bank?—In circulation.

4412. So you are in favour of the circulation of gold coins?—Yes. I should leave the public to use either notes or coins as they prefer.

4413. You are not afraid that there will be a leakage outside of the Union?—What does it matter if we sell some gold coins at a profit?

4414. In European countries at present there is no intention of bringing gold into circulation; neither in England, in Germany, in Holland; nor in Switzerland. The central bank in Switzerland tried to bring the gold into circulation. After about six weeks the public refused gold?—If the public prefers to use paper, it must use paper.

4415. (Professor Kemmerer.) Your idea is to let the public decide?—Yes.

4416. If you can get paper for gold or gold for paper, the public will decide which proportion of each it wants?—Yes.

4417. (Dr. Vissering.) But it is more expensive. If the gold, for instance, is in the vaults of the central bank, and the central bank has the power to issue notes to 2½ times that gold, if the gold is in circulation, then it can only circulate at 100, not at 250?—That is so. The Reserve Bank can acquire as much gold as it needs to make up the circulation. If the public prefers to use gold coins for circulation, they will need less paper. And it seems to me that there is no objection to the bank adjusting its reserves to the public need in that matter.

4418. (Professor Kemmerer.) Do you think there is any strong preference in the Union on the part of the coloured population for gold over notes?—I could not say.

4419. Do you think there is any particular sanitary reason why it is desirable in a country like this to encourage the circulation of gold coin in preference to notes?—Personally, I should very much prefer the gold coins. If I had the option, personally, I should insist on my next cheque being cashed in gold coins.
461

[Professor Robert Alfred Lehfeldt.]

4420. (Dr. Vissering.) But for the whole community it is very much more expensive?—I don't think the expense is of any consequence, when you think it out. Suppose the amount of money in circulation was £6 per head. The interest on that would be about 2s. or 3s. a year. That is what it costs to provide gold in circulation. If anybody chooses to spend 2s. or 3s. a year in order to provide themselves with gold coins, I don't see why they shouldn't.

4421. (Professor Kemmerer.) You would have part of that expense, also, if you were holding a 40 per cent. reserve?—Yes.

4422. (Dr. Vissering.) If you have a note circulation of over eleven millions, as is now the case, then you would have to issue over eleven millions of gold. If you can do it with the notes of the Reserve Bank you have only to keep a cover of from 40 to 50 per cent. in gold?—Yes.

4423. Then some six millions will become available?—Yes, that is so.

4424. Which you can use for other purposes, so that you are saving for the community a great amount of interest?—Yes, that would amount to an appreciable sum for the whole community. It is distinctly an economy to use paper money, but I should leave the public to choose whether they want that economy or not. After all, you don't object to their expenditure on other luxuries.

4425. If you have gold in the vaults of the central bank, you are always sure that this gold can be used at the right moment for the right purpose. But if you have the gold in circulation, it may disappear at the moment when you are most wanting the use of such gold, say, in times of stress, when people become afraid and they go on hoarding it. Then gold is no longer of use as circulation, for which it was created. There is, therefore, a very great disadvantage in the circulation of gold?—That is a possible difficulty in time of war, if the public suffers from panic, certainly. But it doesn't seem to me an important argument in a country which turns out every year four times as much gold as it needs for its entire circulation. I don't see any possibility of South Africa running short of actual metal.

4426. That is just the peculiar situation of South Africa?—Yes. I don't suppose everybody will take to gold in place of notes, but I don't see why the public should not have the opportunity if they choose.

4427. (Professor Kemmerer.) With regard to the point I just raised, from the standpoint of sanitation in a country with such a large coloured population as you have here, isn't there a decided advantage in the circulation of gold over paper?—I am not an expert in hygiene. But I personally prefer the gold coins to the very dirty notes that we get.

4428. There has been some discussion lately here over the advisability of coining fiduciary gold coins, that is, gold coins containing less than their full value in gold, as limited legal tender. It has been suggested, for example, that these coins might be in the denomination of 10s. or 5s., and in some instances other denominations. Have you any opinion with reference to the desirability of such a fiduciary gold coin?—Yes, I think a 10s. coin would be very useful. It is distinctly inconvenient at present to have nothing between the pound and the half-crown.

4429. You have had 10s. full-weight gold coins. The question is, should you substitute for the old 10s. full-weight coin a 10s. fiduciary coin?—If the country is going back to the gold standard, and it has the old half-sovereign available, then there isn't much of a case for the 10s. fiduciary coin, except that it might be made more convenient in shape; it might be made rather larger and harder, and more convenient to distinguish from other coins. It is only a matter of convenience.

4430. The Government might make a substantial profit on the issue of 10s. fiduciary coins; that is also a consideration?—Yes.

4431. Do you think there is any danger, if the Government finds itself in a position to make a profit on these coins, that it might issue them in undue quantities, and thereby perhaps dilute the currency, and put the country in danger of inflation?—I hope
it would have more sense. If the country is on the gold standard, and so long as it fulfills the obligations of the gold standard, it doesn't matter how many of these fiduciary coins are in circulation.

4432. Isn't that right where the bit of corn—so long as it fulfills its obligations? If you have 10 million gold coins in circulation, and 8 million of them are full-weight gold and 2 million fiduciary gold coin, the profit is pretty good. The fiduciary gold circulates well; the public need more gold coins, the Government needs more revenue—all Governments do—and the Government says: "Why not issue more and more of these fiduciary coins?" All goes satisfactorily for some time. Then the exchange turns against the country. There is an outflow of specie. The fiduciary coin does not have the real coin does. A. It goes out, the currency becomes rapidly and progressively diluted. Is there any danger there?—There is just the same danger as with the ordinary issue of paper money. If the Government yields to temptation, it may replace gold coin by pieces of paper, as many Governments have done in the past. If the Government is incapable of resisting temptations of that sort, it might abuse gold token money.

4433. That is one of the reasons that is commonly advanced why it is undesirable for Governments to issue their own paper money. When the Government directly issues its paper money, it finds itself in the temptation of issuing to excess, and, once started on that road, the political pressure frequently proves so strong that it does that very thing. If that argument applies to paper money, it would seem that it might also apply to either a gold fiduciary coin or a silver fiduciary coin, if there were a substantial profit in their issue by the Government?—Yes, it is a possibility, but one has to take that sort of possibility in reference to the actual circumstances and character of the Government one is dealing with. It seems to me that the Government of a country like this, which respects its financial reputation, would not be likely to do it. There is less profit to be made out of abusing a token money circulation than abusing a paper-money circulation, so the temptation is less.

4434. Do you know of any fiduciary gold coins circulating in any other country?—No, I don't; do you? There is plenty of fiduciary silver.

4435. Fiduciary silver is a little safer, probably because it has to be issued in fairly small denominations and because of its bulk. But a fiduciary 10s. piece might be issued in pretty big quantities, and the public might be willing to accept it and use it in large amounts?—Yes, it certainly would be possible to abuse the system, but I don't think the risk is a serious one.

4436. Do you see any advantage in the issue of a fiduciary 5s. gold coin?—No, it would be too small. I think with a 10s. coin and the present silver we can get on quite well.

4437. (Mr. Middleton.) It would be an alloy of copper, silver and gold, or of gold, copper, tin, and zinc?—Yes.

4438. It might be a coin as large as a shilling?—The coins proposed by the mint are very well designed, I think.

4439. (Dr. Vissering.) What would be your opinion about the desirability of replacing the present coinage system here by a decimal system?—I should be entirely in favour of it.

4440. In favour of it?—Unreservedly in favour of it.

4441. (Professor Kemmerer.) Have you any particular scheme in mind? Would you keep the pound as the unit and divide that decimally?—Yes.

4442. How would you divide it decimally?—There is only one way, isn't there? If you take the pound as the unit, you could divide it into ten florins, and each of those into ten units, and each of those into ten units each about the value of the present farthing. That I think is the scheme recommended by the London Chamber of Commerce.

4443. That is the scheme in Peru?—Yes.
The London Chamber of Commerce has actually proposed that?—I understood that two or three years ago the London Chamber of Commerce recommended that plan. Is that right?

Yes.—I had before thought of putting it in the form you suggest; that is, I should recommend the adoption of the Peruvian monetary system.

It works very well there.—I think if some of the British Dominions were to adopt a decimal coinage, it might end by getting over the extreme conservatism of the British Isles in this matter.

Canada has the dollar and the decimal system, with the sovereign unlimited legal tender at gold parity?—Yes, but as we are used to the pound sterling here, I should prefer to see the pound divided into a thousand parts.

We understand that under the existing Reserve Bank law, the Reserve Bank has the exclusive right to issue bank notes for the period of its charter, which, I believe, is 25 years. But there is no provision in the law denying to the Government of South Africa the right to issue Government notes in any quantity it may desire; and there is no agreement between the Government and the Bank to that effect. Do you think it is desirable that the Government should impose upon itself, either by contract with the Reserve Bank or in some other way, a self-denying ordinance in that respect?—I certainly think there should be only one set of notes.

I believe in the original Bill—in one of the earlier forms at least—there was a provision that the Reserve Bank should have the exclusive right of note issue. But in the process of consideration and getting through the Legislature, it was changed to the exclusive right of issuing bank notes. The question is, would it be wise now to try to have it changed back to this earlier form? Was there any indication of why it was changed, or any indication of the intention of Parliament in changing it?

It never got to Parliament in its earlier form. When it was submitted to Parliament it was in its present form, and there was no discussion on the point.—If it is necessary to introduce a safeguard, that provision would be desirable. I certainly think there should be only one set of notes.

I suppose the banks know their situation every day, don't they?—I suppose so. Haven't the banks got these figures for their own use daily?

Then there would be no extra trouble worth mentioning if they publish their average weekly figures?—No.

Do you think that would be desirable?—Yes. I don't know if there is much "window-dressing" with the monthly statement.
Nobody knows, for there is no method of making a comparison. (Mr. Middleton.) We accept the certified statement of the banks and do not verify by inspection, or by requiring a certificate from the banks' auditors.

(Professor Kemmerer.) Another point I would like to ask in that connexion, is this: I note in these balance-sheets certain items are given, and certain items are left out. For example, one very substantial item in the balance-sheet of the banks here is the amount of their London balances. There is no information given in these statements concerning that at all. Do you think it is desirable that these published statements should contain the figures for amounts due from London offices and agencies, and from their foreign correspondents, and the amounts due to them?—Yes, I do. I think that in every way the bank returns should be made as explicit as the public in any way need. I see no reason why the banks should keep secrecy in such matters. I think the American and Canadian banking statistics are decidedly better than the South African.

(Professor Kemmerer.) The American statistics are incomparably more detailed than your statistics are here?—Yes.

4459. Under the existing legislation, we understand that the Reserve Bank has assumed full liability for all the notes of the other banks issued in the Union and outstanding in the Union, and that the other banks have turned over to the Reserve Bank cash sufficient to cover that liability. In these circumstances, do you not think it would be desirable for the Reserve Bank to include its liability on those notes in its statement of note liabilities, and to include those notes in its computation of its percentage of cash reserves?—Certainly.
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<td>17. Mr. J. H. Cohen Stuart's Replies to Questionnaire</td>
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## APPENDIX I.

### I.

**HATeS OF EXCHANGEn IN SOUTH AFRICA FOR BUYING AND SELLING TELEGRAPHIC TRANSFERS AND SIGHT DRAFTS ON LONDON. (COMPILED FROM INFORMATION FURNISHED BY THE STANDARD BANK OF SOUTH AFRICA, LIMITED, LONDON.)**

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<thead>
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<th>Selling</th>
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<td>T/T</td>
<td>Sight</td>
</tr>
<tr>
<td>1910</td>
<td></td>
<td></td>
</tr>
<tr>
<td>January</td>
<td>10</td>
<td>½ discount</td>
</tr>
<tr>
<td>March</td>
<td>11</td>
<td>½</td>
</tr>
<tr>
<td>April</td>
<td>26</td>
<td>½</td>
</tr>
<tr>
<td>May</td>
<td>10</td>
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</tr>
<tr>
<td>June</td>
<td>11</td>
<td>½</td>
</tr>
<tr>
<td>August</td>
<td>12</td>
<td>½</td>
</tr>
<tr>
<td>October</td>
<td>5</td>
<td>½</td>
</tr>
<tr>
<td>1911</td>
<td></td>
<td></td>
</tr>
<tr>
<td>March</td>
<td>17</td>
<td>½</td>
</tr>
<tr>
<td>1914</td>
<td></td>
<td></td>
</tr>
<tr>
<td>February</td>
<td>16</td>
<td>½</td>
</tr>
<tr>
<td>August</td>
<td>4</td>
<td>½</td>
</tr>
<tr>
<td></td>
<td>1</td>
<td>½</td>
</tr>
<tr>
<td>1915</td>
<td></td>
<td></td>
</tr>
<tr>
<td>March</td>
<td>16</td>
<td>½</td>
</tr>
<tr>
<td>May</td>
<td>17</td>
<td>½</td>
</tr>
<tr>
<td>September</td>
<td>15</td>
<td>½</td>
</tr>
<tr>
<td>1917</td>
<td></td>
<td></td>
</tr>
<tr>
<td>April</td>
<td>21</td>
<td>½</td>
</tr>
<tr>
<td>1919</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| May     | 14  | ½ | ½ | Par...
| December| 4   | ½ | ½ | Par...
| 1920    |      |       |      |       |
| February| 12  | ½ | ½ | ½ discount |
| March   | 4   | ½ | ½ | ½ discount |
| April   | 16  | ½ | ½ | ½ discount |
| May     | 1   | ½ | ½ | ½ discount |
| June    | 18  | ½ | ½ | ½ discount |
| July    | 20  | ½ | ½ | ½ discount |
| August  | 4   | ½ | ½ | ½ discount |
| September| 1  | ½ premium | ½ premium | ½ premium |
| October | 7   | ½ | ½ | ½ premium |
| November| 4   | ½ | ½ | ½ premium |
| 30      | 4   | ½ | ½ | ½ premium |
### Buying.

<table>
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<th>Sight</th>
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<tr>
<td>January 6</td>
<td>2½</td>
<td>1½ premium</td>
</tr>
<tr>
<td>21</td>
<td>1</td>
<td>“</td>
</tr>
<tr>
<td>February 21</td>
<td>½</td>
<td>“</td>
</tr>
<tr>
<td>March 5</td>
<td>Par</td>
<td>“</td>
</tr>
<tr>
<td>May 16</td>
<td>¼ discount</td>
<td>“</td>
</tr>
<tr>
<td>August 8</td>
<td>1</td>
<td>“</td>
</tr>
<tr>
<td>December 10</td>
<td>1½</td>
<td>“</td>
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### Selling.

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<td>3½ premium</td>
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<tr>
<td>21</td>
<td>2</td>
<td>“</td>
</tr>
<tr>
<td>February 21</td>
<td>1½</td>
<td>“</td>
</tr>
<tr>
<td>March 5</td>
<td>1</td>
<td>“</td>
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<tr>
<td>May 16</td>
<td>1</td>
<td>“</td>
</tr>
<tr>
<td>August 8</td>
<td>Par</td>
<td>“</td>
</tr>
<tr>
<td>December 10</td>
<td>½</td>
<td>“</td>
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#### Nota.
The pre-war margin between buying and selling rates can be taken at from one-quarter to one-half of one per cent., the latter representing the gold point prior to 1914. Competition in some cases probably reduced the margin below one-quarter per cent.
## APPENDIX 1.

### II.

**RATES OF EXCHANGE IN LONDON FOR BUYING AND SELLING TELEGRAPHIC TRANSFERS AND SIGHT DRAFTS ON SOUTH AFRICA.**

*(Compiled from information furnished by the Standard Bank of South Africa, Limited, London.)*

<table>
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<tr>
<th>Date</th>
<th>Buying</th>
<th>Selling</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Sight</td>
<td>T/T.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Sight</td>
</tr>
<tr>
<td>1910.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>January 1</td>
<td>—</td>
<td>$ premium*</td>
</tr>
<tr>
<td>July 9</td>
<td>$ premium</td>
<td>—</td>
</tr>
<tr>
<td>1911.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>February 25</td>
<td>$ premium</td>
<td>—</td>
</tr>
<tr>
<td>1912.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>October 26</td>
<td>$ premium</td>
<td>—</td>
</tr>
<tr>
<td>1913.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>September 12</td>
<td>$ premium</td>
<td>—</td>
</tr>
<tr>
<td>October 11</td>
<td>$ premium</td>
<td>—</td>
</tr>
<tr>
<td>1914.</td>
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<td></td>
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<tr>
<td>January 31</td>
<td>$ premium</td>
<td>—</td>
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<tr>
<td>August 25</td>
<td>$ premium</td>
<td>—</td>
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<tr>
<td>1916.</td>
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</tr>
<tr>
<td>July 20</td>
<td>$ premium</td>
<td>—</td>
</tr>
<tr>
<td>October 4</td>
<td>$ premium</td>
<td>—</td>
</tr>
<tr>
<td>1919.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>June 4</td>
<td>$ premium</td>
<td>1 premium*</td>
</tr>
<tr>
<td>December 24</td>
<td>$ premium</td>
<td>—</td>
</tr>
<tr>
<td>1920.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>February 9</td>
<td>1½</td>
<td>$ premium</td>
</tr>
<tr>
<td>10</td>
<td>$ premium</td>
<td>3</td>
</tr>
<tr>
<td>19</td>
<td>Par</td>
<td>4½</td>
</tr>
<tr>
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<td>2½ premium</td>
<td>—</td>
</tr>
<tr>
<td>17</td>
<td>6½ premium</td>
<td>6½ premium</td>
</tr>
<tr>
<td>April 6</td>
<td>4½ premium</td>
<td>—</td>
</tr>
<tr>
<td>10</td>
<td>8 premium</td>
<td>7½ premium</td>
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<td>30</td>
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<td>June 15</td>
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<td>—</td>
</tr>
<tr>
<td>16</td>
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<tr>
<td>July 17</td>
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<tr>
<td>23</td>
<td>8</td>
<td>—</td>
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<tr>
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<td>—</td>
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<tr>
<td>7</td>
<td>$ premium</td>
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<tr>
<td>September 18</td>
<td>3 discount</td>
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<tr>
<td>October 9</td>
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<td>November 5</td>
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<td>6</td>
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<td>—</td>
</tr>
<tr>
<td>30</td>
<td>4½</td>
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*Rate not definitely fixed, but quotations given were generally ¼ per cent. above those for sight drafts.*
### APPENDIX 2.

**Paper handed in by Mr. R. E. Hill.**

Estimates (i) of British .925 standard silver coin in circulation in the Union and (ii) the quantity thereof which may be worn.

British coin issued 1872 to 1922 (.925 and .500 standard) £4,547,910

Deduct—

- .925 Standard coin withdrawn to end of 1922 by Royal Mint, London ... ... £164,371
- .925 Standard coin repatriated by Union Government ... ... ... ... ... ... ... £380,000
- .500 Standard coin issued to South Africa ... ... ... ... ... ... ... ... ... ... ... ... £804,200

British .925 standard silver coin remaining in circulation in Union on above basis at end of 1922 ... ... ... £3,199,339

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<td>January</td>
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<tr>
<td>7</td>
<td></td>
<td>2½ discount</td>
<td>2½ discount</td>
</tr>
<tr>
<td>29</td>
<td></td>
<td>¼ &quot;</td>
<td>¼ &quot;</td>
</tr>
<tr>
<td>31</td>
<td>2¼ discount</td>
<td>1 premium</td>
<td>1 premium</td>
</tr>
<tr>
<td>March</td>
<td>2 premium</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>1 premium</td>
<td></td>
<td></td>
</tr>
<tr>
<td>May</td>
<td>1 premium</td>
<td></td>
<td></td>
</tr>
<tr>
<td>13</td>
<td></td>
<td>1 premium</td>
<td>1 premium</td>
</tr>
<tr>
<td>July</td>
<td>1 premium</td>
<td></td>
<td></td>
</tr>
<tr>
<td>22</td>
<td></td>
<td>1 premium</td>
<td>1 premium</td>
</tr>
<tr>
<td>August</td>
<td>1 premium</td>
<td>1 premium</td>
<td>1 premium</td>
</tr>
<tr>
<td>8</td>
<td></td>
<td>1 premium</td>
<td>1 premium</td>
</tr>
<tr>
<td>December</td>
<td>Par</td>
<td>1 premium</td>
<td>1 premium</td>
</tr>
<tr>
<td>9</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1922</td>
<td></td>
<td>1 premium</td>
<td>2¼ &quot;</td>
</tr>
<tr>
<td>April</td>
<td></td>
<td>1 premium</td>
<td>2¼ &quot;</td>
</tr>
<tr>
<td>25</td>
<td></td>
<td>1 premium</td>
<td>2¼ &quot;</td>
</tr>
<tr>
<td>October</td>
<td></td>
<td>1 premium</td>
<td>2¼ &quot;</td>
</tr>
<tr>
<td>10</td>
<td></td>
<td>1 premium</td>
<td>2¼ &quot;</td>
</tr>
<tr>
<td>18</td>
<td></td>
<td>1 premium</td>
<td>2¼ &quot;</td>
</tr>
<tr>
<td>November</td>
<td></td>
<td>1 premium</td>
<td>2¼ &quot;</td>
</tr>
<tr>
<td>13</td>
<td></td>
<td>1 premium</td>
<td>2¼ &quot;</td>
</tr>
<tr>
<td>December</td>
<td></td>
<td>1 premium</td>
<td>2¼ &quot;</td>
</tr>
<tr>
<td>5</td>
<td></td>
<td>1 premium</td>
<td>2¼ &quot;</td>
</tr>
<tr>
<td>1923</td>
<td></td>
<td>1 premium</td>
<td>3 premium</td>
</tr>
<tr>
<td>January</td>
<td></td>
<td>1 premium</td>
<td>3½ premium</td>
</tr>
<tr>
<td>15</td>
<td></td>
<td>1 premium</td>
<td>3½ premium</td>
</tr>
<tr>
<td>26</td>
<td></td>
<td>1 premium</td>
<td>3½ premium</td>
</tr>
<tr>
<td>February</td>
<td></td>
<td>1 premium</td>
<td>3½ premium</td>
</tr>
<tr>
<td>28</td>
<td></td>
<td>1 premium</td>
<td>3½ premium</td>
</tr>
<tr>
<td>March</td>
<td></td>
<td>1 premium</td>
<td>3½ premium</td>
</tr>
<tr>
<td>5</td>
<td></td>
<td>1 premium</td>
<td>3½ premium</td>
</tr>
<tr>
<td>May</td>
<td></td>
<td>1 premium</td>
<td>3½ premium</td>
</tr>
<tr>
<td>13</td>
<td></td>
<td>1 premium</td>
<td>3½ premium</td>
</tr>
<tr>
<td>July</td>
<td></td>
<td>1 premium</td>
<td>3½ premium</td>
</tr>
<tr>
<td>23</td>
<td></td>
<td>1 premium</td>
<td>3½ premium</td>
</tr>
<tr>
<td>August</td>
<td></td>
<td>1 premium</td>
<td>3½ premium</td>
</tr>
<tr>
<td>8</td>
<td></td>
<td>1 premium</td>
<td>3½ premium</td>
</tr>
<tr>
<td>September</td>
<td></td>
<td>1 premium</td>
<td>3½ premium</td>
</tr>
<tr>
<td>29</td>
<td></td>
<td>1 premium</td>
<td>3½ premium</td>
</tr>
<tr>
<td>October</td>
<td></td>
<td>1 premium</td>
<td>3½ premium</td>
</tr>
<tr>
<td>20</td>
<td></td>
<td>1 premium</td>
<td>3½ premium</td>
</tr>
<tr>
<td>November</td>
<td></td>
<td>1 premium</td>
<td>3½ premium</td>
</tr>
<tr>
<td>8</td>
<td></td>
<td>1 premium</td>
<td>3½ premium</td>
</tr>
</tbody>
</table>
(i) First Method—

The returns received from the Customs and Excise Department cover the imports and exports of silver coin (British and other) from the year 1888, and the following figures show the balance of imports during the period 1888-1922:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total imports of silver coin, 1888-1922</td>
<td>£4,249,004</td>
</tr>
<tr>
<td>Total exports of silver coin, 1888-1922</td>
<td>£1,087,155</td>
</tr>
</tbody>
</table>

Balance remaining in Union of South Africa, 1888-1922 = £3,161,849

All coin passing through to Rhodesia (and, since the number of Europeans in Northern and Southern Rhodesia in 1921 totalled 37,000 only, the amount would be small), to Belgian Congo, German South-West Africa, etc., is included among both the imports and exports figures, so that the difference between import and export figures may be regarded as representing British coin. (This figure includes, of course, coin sent by the banks in the Union to their branches in Rhodesia, etc., and vice versa.)

The amount of silver coin issued to South Africa by the London Mint during the above period 1888-1922, £4,972,685, gives some support to the customs and excise imports figures. This comparison also suggests, however, that owing to the historical changes in South Africa during this period the Union Customs Department figures are an under-estimate.

If the silver coin issued by the London Mint to South Africa from 1872 to 1887, £275,225, may be taken to approximate as closely to the customs figure of the total sum imported into the Union as do the relative figures for 1888-1922, and if about one-quarter of this amount also were exported, then about £209,000 may be taken as having remained in the Union, so that the balance of imports over exports for the period 1872 to 1922 would be £3,362,000 approximately. It is true that practically the whole of the £804,200 of .500 standard silver coin may be expected to be included in this balance at the end of 1922 (though information is available showing that some of this has been sent to England and Rhodesia). The amount about £2,566,000 of .925 standard silver coin remained in the Union at the end of 1922.

Second Method—

In this calculation the import figures of British silver coin sent to South Africa by the London Mint during the years 1888-1922 and those of the Union Customs Department of all coin imported during that period are compared year by year, but the following computation has been based on the figures of those years only where both sets of figures are available, this being necessary as customs import figures for the whole period are not quite complete:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Royal Mint figures, 1872-1922 (British coin)</td>
<td>£4,567,910</td>
</tr>
<tr>
<td>Estimated Customs figures, 1872-1922 (all coin)</td>
<td>4,924,115</td>
</tr>
</tbody>
</table>

Ratio, Royal Mint figures: Customs figures = 1:1.07798. Applying this ratio to the known Royal Mint figures for the period 1872-1922, an estimated Customs figure is obtained as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Royal Mint figures, 1872-1922 (British coin)</td>
<td>£4,567,910</td>
</tr>
<tr>
<td>Estimated Customs figures, 1872-1922 (all coin)</td>
<td>4,924,115</td>
</tr>
</tbody>
</table>

Similarly, in comparing the Customs figures for imports with those for exports, 1888-1922, figures for those years only when both sets of figures are available have been used in the following computation:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customs figures, imports ... ... ... ...</td>
<td>£4,017,518</td>
</tr>
<tr>
<td>Customs figures, exports ... ... ... ...</td>
<td>1,087,155</td>
</tr>
</tbody>
</table>

These show that exports were 27.06% per cent. of imports.

*This includes £20,000 imported for Rhodesia, included in Customs figures, 1888-1922.
The estimated Customs figures for the period 1872-1922, then, are as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Imports</td>
<td>£4,924,115 (a)</td>
</tr>
<tr>
<td>Exports</td>
<td>1,332,485 27-9004 per cent. of (a).</td>
</tr>
<tr>
<td>i.e. Net amount of British coin remaining in South Africa, 1872-1922</td>
<td>3,591,630</td>
</tr>
<tr>
<td>Deduct British .500 standard</td>
<td>804,000</td>
</tr>
<tr>
<td>i.e. Net amount of .925 standard coin in South Africa at end of 1922</td>
<td>£2,787,630</td>
</tr>
</tbody>
</table>

(iii) Worn coin sorted by the banks has been delivered to the mint for recoinage since the beginning of 1923, but these figures do not help in the estimating of the proportion of worn British .925 standard coin which may remain in the Union. The following figures, however, giving the results of sorting by the mint of a sum of £176,000 of coin as taken from circulation over the banks' counters and deposited unsorted in the mint, may be regarded as furnishing a reliable estimate of the proportion of worn to good British .925 standard silver coin:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Good British .925 standard coin</td>
<td>£127,396 15 3</td>
</tr>
<tr>
<td>Worn British .925 standard coin</td>
<td>19,734 16 6</td>
</tr>
<tr>
<td>British .500 standard coin</td>
<td>20,680 19 6</td>
</tr>
<tr>
<td>Kruger coin</td>
<td>6,788 11 6</td>
</tr>
<tr>
<td>Australian, etc., coin</td>
<td>1,000 19 6</td>
</tr>
<tr>
<td>Union coin</td>
<td>396 0 3</td>
</tr>
<tr>
<td>Shortages and counterfeits</td>
<td>1 17 6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>£176,000 0 0</strong></td>
</tr>
</tbody>
</table>

It follows from the above that of the British .925 standard coin 13.41 per cent. was in a sufficiently worn condition as to require withdrawal from circulation, and that of the balance of British .925 standard coin in the Union at the end of 1922 as under Statement (i), First Method, viz., £2,555,000, a total sum of £343,000 may have been worn, or under Statement (i), Second Method, viz., £2,788,000, a total of worn £373,800.

Finally, it is admitted that the above estimates are, except in regard to mint records, based on an incomplete series of figures. In addition to the fact mentioned under Method (i) that the customs figures of imports are under-estimated, it is known that shipments of silver coin on account of the Treasury Chest were made to South Africa which are not included in the mint records, e.g. in 1872 £174,000 in British gold and silver coin was sent to Cape Colony and in 1874 £97,000 in British silver coin was sent to Natal, before the date covered by the Union Customs Department's figures. It may be claimed, therefore, that the above estimates of silver coin in the Union at the end of the year 1922 are not exaggerated, though it cannot be said to what extent these figures might be reduced by the unknown factor of coin lost.

Royal Mint, Pretoria,
September, 1924.
## APPENDIX 3.

**Table handed in by Mr. F. J. Fahey.**

**Rates of Pay of Certain Classes of White Employés Underground on the Witwatersrand Gold Mines.**

<table>
<thead>
<tr>
<th></th>
<th>Average Pay per Shift (excluding overtime).</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shift Bosses</td>
<td>26 2 26 6 26 7</td>
</tr>
<tr>
<td>Timbermen</td>
<td>19 11 19 7 19 10</td>
</tr>
<tr>
<td>Pickmen</td>
<td>18 9 18 6 18 11</td>
</tr>
<tr>
<td>Fitters</td>
<td>21 8 20 6 20 8</td>
</tr>
<tr>
<td>Platerayers</td>
<td>18 0 18 0 18 10</td>
</tr>
<tr>
<td>Skipmen and Onsetters</td>
<td>15 10 15 0 15 11</td>
</tr>
<tr>
<td>Trammers (excluding Contractors)</td>
<td>12 0 14 0 14 2</td>
</tr>
<tr>
<td>Pumpmen</td>
<td>18 4 18 7 18 11</td>
</tr>
<tr>
<td>Miners</td>
<td></td>
</tr>
<tr>
<td>Machine Stopping—</td>
<td></td>
</tr>
<tr>
<td>Contract</td>
<td>28 10 28 8 29 9</td>
</tr>
<tr>
<td>Day's Pay</td>
<td>19 4 18 5 18 7</td>
</tr>
<tr>
<td>Hand Stopping—</td>
<td></td>
</tr>
<tr>
<td>Contract</td>
<td>27 2 24 11 25 2</td>
</tr>
<tr>
<td>Day's Pay</td>
<td>18 9 19 1 19 0</td>
</tr>
<tr>
<td>Machine Developing—</td>
<td></td>
</tr>
<tr>
<td>Contract</td>
<td>36 9 34 1 37 2</td>
</tr>
<tr>
<td>Day's Pay</td>
<td>19 4 21 5 18 5</td>
</tr>
<tr>
<td>Shaft Sinking—</td>
<td></td>
</tr>
<tr>
<td>Contract</td>
<td>48 2 50 11 52 2</td>
</tr>
<tr>
<td>Day's Pay</td>
<td>27 1 21 11 22 0</td>
</tr>
<tr>
<td>Reclaiming, etc.—</td>
<td></td>
</tr>
<tr>
<td>Contract</td>
<td>18 8 18 7 18 11</td>
</tr>
<tr>
<td>Day's Pay</td>
<td></td>
</tr>
<tr>
<td>Engine-drivers (winding)</td>
<td>21 8 21 7 21 1</td>
</tr>
<tr>
<td>Winch-drivers</td>
<td>12 5 13 6 13 3</td>
</tr>
</tbody>
</table>

**Note.**—(a) These figures are fully reliable, being extracted from the Government Mining Engineer's Report, 1923.

(b) The month of October was selected in 1922 in order to obtain what might be deemed, as nearly as possible, normal figures for the second half of that year, when rates of pay were becoming more settled after the strike.

(c) The rates for the four years June, 1916, to June, 1919, are omitted as, owing to the fluctuations in war bonus and the scale of bonus varying for single and married men and with the number of dependents, an average rate of pay for these years is misleading.

(d) It will be observed that at no time did the ascending or descending rates of pay equal the cost of living as compared with 1914 = 100.

(e) In most cases far more work was performed in 1923 by each man than in 1914.

A. M. M.
### COMPARISON OF MINE EMPLOYES (EXCLUDING MINE MANAGERS).

<table>
<thead>
<tr>
<th></th>
<th>June, 1914</th>
<th>June, 1923</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Per Month.</td>
<td>Per Month.</td>
</tr>
<tr>
<td></td>
<td>£ s. d.</td>
<td>£ s. d.</td>
</tr>
<tr>
<td>Clerical</td>
<td>25 1 0</td>
<td>29 1 0</td>
</tr>
<tr>
<td>Engineering Officials</td>
<td>44 3 0</td>
<td>48 5 0</td>
</tr>
<tr>
<td>Reduction Officials</td>
<td>44 1 0</td>
<td>43 17 6</td>
</tr>
<tr>
<td>Various Officials</td>
<td>29 6 0</td>
<td>33 0 6</td>
</tr>
<tr>
<td>All Surface Officials</td>
<td>31 17 0</td>
<td>35 15 0</td>
</tr>
<tr>
<td>Underground Officials</td>
<td>38 19 0</td>
<td>45 4 0</td>
</tr>
<tr>
<td>All Officials</td>
<td>34 10 0</td>
<td>39 9 0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Per Shift.</th>
<th>Per Shift.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>s. d.</td>
<td>s. d.</td>
</tr>
<tr>
<td>Mechanics (surface)</td>
<td>20 0</td>
<td>20 7</td>
</tr>
<tr>
<td>Mechanics (underground)</td>
<td>20 2</td>
<td>22 10</td>
</tr>
<tr>
<td>Engine-drivers (surface)</td>
<td>18 10</td>
<td>19 10</td>
</tr>
<tr>
<td>*Reduction Workers</td>
<td>15 3</td>
<td>19 0</td>
</tr>
<tr>
<td>Miners</td>
<td>30 0</td>
<td>31 7</td>
</tr>
<tr>
<td>Various Employes (surface)</td>
<td>15 4</td>
<td>17 1</td>
</tr>
<tr>
<td>All Surface (day's pay)</td>
<td>17 8</td>
<td>19 6</td>
</tr>
<tr>
<td>All Underground (day's pay)</td>
<td>17 1</td>
<td>20 3</td>
</tr>
<tr>
<td>All Day's Pay</td>
<td>17 6</td>
<td>19 10</td>
</tr>
</tbody>
</table>

* Working seven days per week in 1914; six days per week in 1923.

### APPENDIX 4.

**TABLE PUT IN BY MR. A. W. CARRUTHERS.**

### AVERAGE WEEKLY WAGES PAID TO EUROPEAN WORKERS IN NINE TOWNS IN THE UNION, 1910-24.

<table>
<thead>
<tr>
<th>Year</th>
<th>Nominal.</th>
<th>Effective.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>s. d.</td>
<td>s. d.</td>
</tr>
<tr>
<td>1910 (yearly average)</td>
<td>95 1</td>
<td>95 1</td>
</tr>
<tr>
<td>1914</td>
<td>97 9</td>
<td>90 0</td>
</tr>
<tr>
<td>1915</td>
<td>99 11</td>
<td>88 6</td>
</tr>
<tr>
<td>1916</td>
<td>104 10</td>
<td>90 8</td>
</tr>
<tr>
<td>1917</td>
<td>111 11</td>
<td>89 6</td>
</tr>
<tr>
<td>1918</td>
<td>122 3</td>
<td>93 4</td>
</tr>
<tr>
<td>1919 (December average)</td>
<td>135 7</td>
<td>89 8</td>
</tr>
<tr>
<td>1920</td>
<td>163 5</td>
<td>96 6</td>
</tr>
<tr>
<td>1921</td>
<td>153 1</td>
<td>111 4</td>
</tr>
<tr>
<td>1922</td>
<td>131 7</td>
<td>100 6</td>
</tr>
<tr>
<td>1923 (September average)</td>
<td>132 5</td>
<td>102 0</td>
</tr>
</tbody>
</table>
APPENDIX 5.

TABLE PUT IN BY MR. A. W. CARRUTHERS.

WAGES: NOMINAL AND REAL (BASE 1914=1000).

INDEX NUMBERS.

European Adult Male Workers

<table>
<thead>
<tr>
<th>Year</th>
<th>Nominal</th>
<th>Effective</th>
</tr>
</thead>
<tbody>
<tr>
<td>1914 (average)</td>
<td>1000</td>
<td>1000</td>
</tr>
<tr>
<td>1915</td>
<td>1021</td>
<td>983</td>
</tr>
<tr>
<td>1916</td>
<td>1071</td>
<td>1006</td>
</tr>
<tr>
<td>1917</td>
<td>1144</td>
<td>995</td>
</tr>
<tr>
<td>1918</td>
<td>1260</td>
<td>1037</td>
</tr>
<tr>
<td>1919 (December average)</td>
<td>1386</td>
<td>996</td>
</tr>
<tr>
<td>1920</td>
<td>1660</td>
<td>1072</td>
</tr>
<tr>
<td>1921</td>
<td>1534</td>
<td>1237</td>
</tr>
<tr>
<td>1922</td>
<td>1345</td>
<td>1116</td>
</tr>
<tr>
<td>1923 (September average)</td>
<td>1364</td>
<td>1163</td>
</tr>
</tbody>
</table>

APPENDIX 6

TABLE PUT IN BY MR. A. W. CARRUTHERS.

WHOLESALE INDEXES.

<table>
<thead>
<tr>
<th>Year</th>
<th>1910=1000</th>
<th>1913=1000</th>
</tr>
</thead>
<tbody>
<tr>
<td>1913 (average for year)</td>
<td>1125</td>
<td>1000</td>
</tr>
<tr>
<td>1914</td>
<td>1050</td>
<td>969</td>
</tr>
<tr>
<td>1915</td>
<td>1204</td>
<td>1070</td>
</tr>
<tr>
<td>1916</td>
<td>1379</td>
<td>1236</td>
</tr>
<tr>
<td>1917</td>
<td>1583</td>
<td>1407</td>
</tr>
<tr>
<td>1918</td>
<td>1723</td>
<td>1532</td>
</tr>
<tr>
<td>1919</td>
<td>1854</td>
<td>1618</td>
</tr>
<tr>
<td>1920</td>
<td>2612</td>
<td>2238</td>
</tr>
<tr>
<td>1921</td>
<td>1805</td>
<td>1604</td>
</tr>
<tr>
<td>1922</td>
<td>1445</td>
<td>1284</td>
</tr>
<tr>
<td>1923</td>
<td>1424</td>
<td>1266</td>
</tr>
<tr>
<td>October, 1923</td>
<td>1410</td>
<td>1253</td>
</tr>
<tr>
<td>1924</td>
<td>1448</td>
<td>1287</td>
</tr>
<tr>
<td>January</td>
<td>1473</td>
<td>1314</td>
</tr>
<tr>
<td>April</td>
<td>1420</td>
<td>1262</td>
</tr>
<tr>
<td>July</td>
<td>1404</td>
<td>1248</td>
</tr>
<tr>
<td>October</td>
<td>1491</td>
<td>1325</td>
</tr>
</tbody>
</table>
APPENDIX 7.

TABLE PUT IN BY MR. A. W. CARRUTHERS.

<table>
<thead>
<tr>
<th>Date</th>
<th>Wholesale Prices</th>
<th>Retail Prices</th>
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<tbody>
<tr>
<td></td>
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<td>1915—January</td>
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<td>1101</td>
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<tr>
<td>1917—January</td>
<td>1461</td>
<td>1322</td>
</tr>
<tr>
<td>1918—January</td>
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<td>1341</td>
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<tr>
<td>1919—January</td>
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<td>1410</td>
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<td>1415</td>
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<td>July</td>
<td>1761</td>
<td>1404</td>
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<td>October</td>
<td>2023</td>
<td>1827</td>
</tr>
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<td>1921—January</td>
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<tr>
<td>July</td>
<td>1642</td>
<td>1400</td>
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<td>October</td>
<td>1611</td>
<td>1300</td>
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<td>1922—January</td>
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<td>July</td>
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<tr>
<td>October</td>
<td>1372</td>
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<td>1924—January</td>
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<tr>
<td>April</td>
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<tr>
<td>October</td>
<td>1450</td>
<td>1353</td>
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</table>

NOT! —From 1914-1920 retail prices are for the average of the year and from October, 1920, for the month in question.

The highest point reached was July, 1920, in wholesale, and October, 1920, in retail.
# APPENDIX 8.

**Production of Principal Commodities in the Union, 1911-1924.**

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<tr>
<th></th>
<th>Gold</th>
<th>Diamonds</th>
<th>Copper</th>
<th>Tla</th>
<th>Coal</th>
<th>Sheep</th>
<th>Cattle</th>
<th>Goats</th>
<th>Pigs</th>
<th>Maise</th>
<th>Wheat</th>
<th>Sugar</th>
<th>Unjinned Tobacco</th>
<th>Tobacco</th>
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<td>1911</td>
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<td>5,796,949</td>
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<td>1,081,600</td>
<td>1,726,509</td>
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<td>3,441</td>
<td>8,261,224</td>
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<td>3,264</td>
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<td>438,588</td>
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<td>2,679</td>
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<td>—</td>
<td>—</td>
<td>2,394,000</td>
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<tr>
<td>1918</td>
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<td>6,876</td>
<td>2,206</td>
<td>9,877,325</td>
<td>29,014,035</td>
<td>8,018,871</td>
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<tr>
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<td>1,630</td>
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<td>31,739,434</td>
<td>7,532,956</td>
<td>7,678,681</td>
<td>1,150,338</td>
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<td>500,300</td>
<td>150,214</td>
<td>1,418,611</td>
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<td>11,472,464</td>
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<td>329,310</td>
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<td>1924</td>
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<td>3rd Quarter</td>
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</table>
### STATEMENT put in by Mr. A. W. Carruthers.

**APPENDIX 9.**

**Union of South Africa.—Balance of Visible and Invisible Trade (000's omitted).**

#### VISIBLE TRADE.

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<tr>
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</tr>
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<td>£</td>
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<td>£</td>
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#### INVISIBLE TRADE.

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<td>113</td>
<td>112</td>
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<td>Freight and Insurance</td>
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<td>Government Expenditure Abroad</td>
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<td>500</td>
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<td>Railway Services</td>
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<td>463</td>
<td>449</td>
<td>462</td>
<td>525</td>
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<td>25,513</td>
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<td><strong>Balances</strong></td>
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<td>£</td>
<td>£</td>
<td>£</td>
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<td>£</td>
</tr>
<tr>
<td>£</td>
<td>31,188</td>
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<td>20,573</td>
<td>57,453</td>
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<td>4,291</td>
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</table>
MEMORANDUM.

BALANCE OF VISIBLE AND INVISIBLE TRADE.

Visible Trade.

The figures for visible trade are derived from the returns of the Customs Statistical Bureau. The value of goods imported, subject to an ad valorem duty, is the selling price for home consumption in the open market of similar articles in the principal markets of the country from which, and at the time at which, the goods were exported, plus the cost of packages, packing, and carriage to the port of shipment. For goods subject to a rated duty or free of duty the f.o.b. values are given. In general the value of foreign currency is expressed in terms of British currency. Freight and insurance has therefore to be included in the invisible imports as well as some allowance for the difference in the external price level as indicated by the exchange rate between South Africa and London.

The value of goods exported, the produce of British South Africa, is that current at the time and place of shipment, plus the cost of packages, packing, and loading charges. For re-exports from open stock the f.o.b. value is given, and in the case of exports from bond the value recorded is that at which the goods were originally warehoused.

It is difficult to say how far the exports represent the actual amount received by Union nationals. In the case of goods purchased by foreign agents in the Union the values are probably as good as can be obtained. In the case of goods exported on consignment the declared value may be greater or less than the actual value finally received for the goods. But on the whole it may be taken that with the exception of gold the declared values are the prices received by Union nationals, and that considerations of exchange have already been discounted when estimating them.

Gold is declared at the standard value, whereas the correct value should be the selling price in London less the realization charges. This matter is, however, further dealt with in the section on bank exchange rates.

Invisible Trade.

Expenditure of South African Nationals Abroad.—Apart from steamer fares, for which very close approximations were worked out for the years 1918 and 1919 from the arrivals and departures at the various ports, it is difficult to get the expenditure abroad even approximately correct. The following gives some idea of the wealth of the persons travelling:

47 per cent. travel first class.
20 " travel second class.
33 " travel third class

If we regard the average expenditure for men, women, and children as in the proportion of 4 is to 3 is to 2, and assuming that a male adult travelling first class spends £300, travelling second class £150, and travelling third £100 on the trip apart from steamer fares, we get the following scale of expenditure:

<table>
<thead>
<tr>
<th></th>
<th>1st Class</th>
<th>2nd Class</th>
<th>3rd Class</th>
<th>Average or in Round Numbers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Men</td>
<td>300</td>
<td>150</td>
<td>100</td>
<td>205</td>
</tr>
<tr>
<td>Women</td>
<td>225</td>
<td>113</td>
<td>75</td>
<td>153</td>
</tr>
<tr>
<td>Children</td>
<td>150</td>
<td>75</td>
<td>50</td>
<td>103</td>
</tr>
</tbody>
</table>
Included among these are a number of South African students going abroad. There were in the British Isles at the end of 1923, 714 university students from the Union and Rhodesia. If we take the Union's share of this as 700 and include the students in Holland and America, the other chief centres, as well as some students not attached to universities, there were probably at least 1,000 university students abroad and probably about 1,000 children as well. If one takes the average expenditure of a university student at £300 (Rhodes scholars received £350) and assume that on the average they spend three years abroad, and remembering that they are included in the migration figures, say, as second class travellers, out of an expenditure of £900, £150 has been allowed for, leaving £750 or £250 per annum. The total expenditure of 1,000 university students will be £250,000, and, in addition, 1,000 children at £100 to £200 per head would be £100,000 to £200,000, the latter figure probably being nearer the mark, say, £150,000. The total additional expenditure will therefore be about £400,000.

In the absence of sufficient statistical information, and bearing in mind that a number of South African families were abroad at the end of the war and therefore stayed longer than the ordinary visiting period, and at the same time there were much fewer university students, we will not be far wrong if we add £400,000 to each year 1917 to 1923.

The number of Asiatics visiting India is small compared to the Europeans visiting Europe. It has been assumed that they all travel third class and spend on the average £50 per head.

The number of Rhodesians who come into the Union is about the same as South Africans who go to Rhodesia judging from the total fares collected in the two countries. At the same time there are a number of Rhodesian children at school in South Africa, so that on the whole South Africa receives more money than she pays out. In the absence of definite statistics the amounts have been left out of the calculation, as in any case the net balance would be small. On the other hand, many more South Africans visit Portuguese East Africa and vice versa. This is chiefly due to excursionists. If the net balance is taken at £25 per head, we get an annual expenditure of about £50,000. The following are the final figures for the expenditure of South African nationals abroad:

<table>
<thead>
<tr>
<th>1918</th>
<th>1919</th>
<th>1920</th>
<th>1921</th>
<th>1922</th>
<th>1923</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Final Figures of Expenditure Abroad.</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Oversea Expenditure—</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>European</td>
<td>£1,000</td>
<td>£1,000</td>
<td>£1,000</td>
<td>£1,000</td>
<td>£1,000</td>
</tr>
<tr>
<td>Asiatic</td>
<td>456</td>
<td>2,588</td>
<td>4,298</td>
<td>4,066</td>
<td>3,842</td>
</tr>
<tr>
<td>Scholars Studying Abroad</td>
<td>78</td>
<td>98</td>
<td>104</td>
<td>101</td>
<td>94</td>
</tr>
<tr>
<td>Expenditure in Portuguese East Africa</td>
<td>400</td>
<td>400</td>
<td>400</td>
<td>400</td>
<td>400</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>£984</td>
<td>3,136</td>
<td>4,852</td>
<td>4,617</td>
<td>4,386</td>
</tr>
</tbody>
</table>

*Expenditure of Foreign Travellers in the Union.*—A number of visitors to South Africa earn their living as members of theatre companies, etc., so that it is almost impossible to calculate the expenditure of foreign nationals in the Union. On the other hand, a number of the crews of ships calling at South
African porters spend money in South Africa. If the expenditure of visitors is taken as being somewhat the same proportion as the expenditure per head of South African nationals abroad, less steamer fares expenditure by intransit passengers being regarded as compensating the non-expenditure by theatre artists, etc., and a sum allowances made for ships' crews of £30,000 a year between 1919 to 1923 and £15,000 in 1917 and 1918, we get the following rough estimate of the expenditure of foreign nationals in South Africa:

<table>
<thead>
<tr>
<th>Year</th>
<th>£</th>
<th>£</th>
<th>£</th>
<th>£</th>
<th>£</th>
<th>£</th>
</tr>
</thead>
<tbody>
<tr>
<td>1917</td>
<td>75,000</td>
<td>75,000</td>
<td>350,000</td>
<td>525,000</td>
<td>500,000</td>
<td>475,000</td>
</tr>
</tbody>
</table>

**Dividends Paid Abroad.**—It was found that in 1917, 14½ per cent. of the mining shares were held by South Africans apart from holdings in investment companies. The proportion of dividends paid to South Africans was slightly higher and was estimated in 1918 at 17½ per cent. It has been known that South Africans have since acquired a certain larger proportion of the shares, especially those of the East Rand. In the absence of definite statistics on the subject, it has been assumed that the proportion of dividends paid to South Africans has increased by 3 per cent. from 1917 to 1923; in addition, the holdings of South African industrial companies were estimated at approximately ¼, in 1918, and this proportion has been left constant.

**Company Profits.**—Besides the payment of dividends, approximately five millions of profits are made by companies in South Africa. These profits are almost entirely put back into the business, and therefore, in so far as they are held by foreign investors, they should be shown as profits on one side of the account and new capital invested on the other side. In these circumstances this item has been omitted from the balance of the trade. On the whole, profits of overseas firms, such as insurance companies, are reinvested in South Africa. Between 1919-1922 their assets in the Union increased by a million and a half.

**Repayment of Debt.**—Investments abroad, increase of debt, sale of investments. These items are calculated from information furnished by the Treasury and the municipalities; repayment of debt and increase of debt are net figures for Government and municipal debt overseas. Investments abroad and sale of investments are net figures of the holdings of the Public Debt Commissioners.

**Interest on Government and Municipal Debt and Interest from Foreign Investments.**—These are net figures of the interest paid on Government and municipal debt and interest received by the Public Debt Commissioners from foreign investments.

**Pensions Paid Abroad and Pensions Paid in the Union.**—These items represent the pensions paid by foreign Governments or agents abroad on behalf of the Union Government and pensions paid in the Union by the Union Government on behalf of foreign Governments.

**Buying Commissions.**—An estimate for the amount expended in buying commissions is calculated at the rate of ¼ per cent. of the imports.

**Freight and Insurance.**—The figures for 1922 and 1923 are actually figures calculated by the Customs Statistical Bureau. An estimate for the previous years has been calculated by applying the same proportion that the 1922 figure bears to the oversea imports.

**Landing Charges and Railage on Goods from Lourenco Marques.**—Goods imported into the Union through the port of Lourenco Marques are for the most part declared at the price paid. A calculation has therefore been made for the landing charges and cost of railage to the Union of this traffic.
Portuguese Natives.—The amount of money leaving the Union through the repatriation and recruitment of Portuguese natives has been furnished by the Native Affairs Department. The item includes passport fees paid by W.N.L.A. in "Intendencia" passes and M/A passes paid by natives coming to the Union, quarterly renewal fees, registration fees, clandestine immigration fees, and lost passports, customs fees, native remittances through the Portuguese curator and through W.N.L.A. estates, including compensation to dependents and an estimate of money taken by the natives, calculated at £12 per head.

Indians Repatriated.—This item includes the amount of money taken in person by Indians (obtained from the Protector of Indian Immigrants) and the cost of repatriating Indians (steamer fares and bonus) paid by the Department of the Interior.

Post Office Net Payments.—This item includes three-quarters of the net payments of the Post Office to the cable company (the remaining one-quarter being set against the expenditure of the cable company in South Africa) less credits on land transit payments on parcel and letter mails. The mail contract costs approximately £160,000, but the net payment by the Union is less than £40,000; this amount, together with the coastal allowance to the steamship company, has been omitted as being set against the expenditure of the shipping company in South Africa.

Expenditure Abroad.—This item includes the cost of the High Commissioner's Office in London, the Naval subsidy, and subsidy to the League of Nations.

Expenditure of Foreign Governments.—This includes the expenditure of the Imperial Government at Simonstown and an estimate of the expenditure of foreign consulates in South Africa.

Shipping.—This item includes the revenue derived from foreign shipping visiting Union ports, and has been furnished by the Railway Department.

Railway Services.—An estimate of the amount received by the Union for intransit trade has been calculated as follows:—The proportion of sea-borne traffic to South African traffic to Rhodesia has been applied to the railway revenue derived from this source. As, however, it is estimated that only 10 per cent. of the Rhodesia inwards traffic from Rhodesia through the Union is carried on behalf of Rhodesians, only 10 per cent. of the revenue derived from this source has been included.

The Effect of the Exchange on the Declared Values of Imports and Exports.

As pointed out before, all overseas imports are declared in terms of British currency, while exports with the exception of gold are thought to be declared at South African prices. Gold is, however, declared at the standard value, plus an estimate for the gold premium. Owing to the different methods adopted by different mining groups for estimating their working revenue, it has not been easy to get at the exact price obtained in terms of South African currency. Besides, the mines do not bring back the whole of the money received for the sale of gold, and they also allow balances to accumulate for the purchase of stores, payments of dividends, and possibly in the expectation of more favourable exchange rates. The following calculations have, however, been made for the purpose of estimating within what limits the balance of trade should be adjusted in consequence of the movement of exchange. In the case of imports the average price of gold obtained for South African gold in London has been applied to the number of fine ounces exported and the charges for insurance and freight and the average buying rate of telegraph transfers from South Africa on London for each year deducted. The difference between these figures and those shown in the balance of visible trade is entered below. In the case of imports the average selling rate of exchange has been applied. In the latter case, when the rate is at a premium, the
difference will have to be added to the imports, and when at a
discount deducted.

<table>
<thead>
<tr>
<th></th>
<th>Deducted from Exports</th>
<th>Added to Imports (+)</th>
<th>Total Deducted from Exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>1917</td>
<td>£1,000</td>
<td>+ 137</td>
<td>568</td>
</tr>
<tr>
<td>1918</td>
<td>431</td>
<td>+ 186</td>
<td>440</td>
</tr>
<tr>
<td>1919</td>
<td>382</td>
<td>+ 159</td>
<td>541</td>
</tr>
<tr>
<td>1920</td>
<td>849</td>
<td>- 1,031</td>
<td>-182</td>
</tr>
<tr>
<td>1921</td>
<td>138</td>
<td>+ 143</td>
<td>281</td>
</tr>
<tr>
<td>1922</td>
<td>681</td>
<td>- 384</td>
<td>297</td>
</tr>
<tr>
<td>1923</td>
<td>1,356</td>
<td>- 696</td>
<td>660</td>
</tr>
</tbody>
</table>

This calculation would increase the trade balance in an unfavourable manner every year except 1920.

A large portion of this would, however, represent banking profits (about half) and the cost of insurance and freight on gold sent, and a compensation would probably occur among the figures for invisible trade.

Other Items not allowed for.

Remittances.—Although the banks were approached on this subject, they were unable to give any information. The following are the figures of remittances through the Post Office for the seven years. (Postal orders only show remittances abroad in their final balance):

<table>
<thead>
<tr>
<th></th>
<th>From the Union</th>
<th>To the Union</th>
<th>Balance Leaving Union</th>
</tr>
</thead>
<tbody>
<tr>
<td>Postal Orders</td>
<td>£1,000</td>
<td>£1,000</td>
<td>£1,000</td>
</tr>
<tr>
<td></td>
<td>12,496</td>
<td>10,555</td>
<td>1,941</td>
</tr>
<tr>
<td>Money Orders</td>
<td>5,705</td>
<td>3,912</td>
<td>2,793</td>
</tr>
<tr>
<td>Savings Bank Accounts</td>
<td>390</td>
<td>231</td>
<td>159</td>
</tr>
<tr>
<td></td>
<td>18,591</td>
<td>13,698</td>
<td>4,893</td>
</tr>
</tbody>
</table>

From the final figure about £200,000 should be deducted for money orders drawn on the United States of America for speculative purposes in 1919-1920 and subsequently refunded. Still, it is difficult to analyse the remaining four million. Some of it represents money sent abroad for goods that are sent out by parcel post and are, therefore, included in the visible imports. The actual value of parcels received is greater than the money orders issued, but, of course, a large number of them would be presents. A portion of this would be remittances to children abroad, an estimate for which has already been included in the invisible imports.

Capital from Abroad.—No estimate for capital received from abroad has been made, except in the case of Government and municipal loans. Rather over two millions has been traced that was raised in London during 1923. Estimates of capital brought into
the country by settlers has, in the opinion of the banks, either been exaggerated or the money has not yet been brought in.

Capital Exported.—There is no information about capital being taken by persons abandoning domicile.

Investments Abroad.—There is no information on this point. The Post Office paid out £11,131 in 1923 in British Savings Certificates, which probably represents savings in the war period of persons at the front or possessions of new settlers.

All these items are, therefore, included in the balancing figure of the account.

Two points should be noted with regard to this calculation. It has been impossible to separate Basutoland, Swaziland, and BechuanaLand from the Union figures. With our present state of statistical information it would have introduced complications quite impossible to unravel. In the case of South-West Africa, the trade has been omitted, but it may be that certain war expenditure and the deficit on the railways should have been taken account of.

The second point that should be borne in mind is that until July, 1919, gold was paid for by the Bank of England as soon as it was deposited with a South African bank. The exaggerated exports of 1917 and 1919 are to some extent misleading, as, for all practical purposes of a calculation such as this, the gold was exported as soon as it was produced.

APPENDIX 10.

RESUMPTION OF GOLD PAYMENTS IN SOUTH AFRICA.

Mr. Samuel Evans's Replies to Questionnaire.

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

Yes. The sooner there is an absolutely free market in gold and the old-fashioned gold standard is restored here and elsewhere in the world, the better for South Africa. The importance of gold to this country can hardly be exaggerated, and consequently it is to our interest that it should be used as money to the greatest possible extent in South Africa and in the rest of the world and that that state of affairs should be brought about at the earliest possible date. We do not want people to get accustomed to do without gold. Delay in restoring the gold standard is distinctly dangerous from our point of view. The longer the present policy of the British Government (that of keeping prices approximately steady, with perhaps a slight upward tendency) continues, the less will be their inclination to return to the gold standard. In the course of the discussion on monetary reform at a meeting of the Fellows of the Royal Economic Society, held in London on 14th April last, Mr. J. M. Keynes asked: “Why should we not aim for the present at keeping our own price level steady?” and added: “If, after having done this successfully for a few years, we reached our old parity, I myself would have a great deal of confidence that the success of the method would justify its continuance; that, after having kept prices steady without the use of gold for some appreciable time, we should be rather loath to abandon it and to follow the tide of involuntary inflation by linking ourselves once more to gold, which by hypothesis would have just been depreciating substantially.”

Another reason for restoring the gold standard at the earliest possible date is this: Under present circumstances delay will almost certainly mean a further rise in prices and in the cost of living here, and this may, and most likely will, take place without any increase, and may even coincide with a decrease in the premium on gold. An examination of the index figures of the wholesale prices of commodities and of the cost of living shows that the commodity
value of gold has depreciated less here than in Europe and America. This is an abnormal condition, which is not likely to last. Indeed, it is certain that sooner or later wholesale prices and the cost of living here will rise to a level approximating that of Europe and America. Should that occur, whilst there is uncertainty here as to the restoration of the gold standard, prices and the cost of living may go to a very high level. Once that takes place the mischief is done and recovery will be extremely difficult and troublesome, even more difficult and troublesome than it was after the inflation of 1919-20.

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

Yes. It is popularly supposed that our money to-day is linked with British sterling, and we are constantly being urged to keep it linked with British sterling. The fluctuations that have taken place in the exchange rates between South Africa and London in recent years prove conclusively that our money is not linked with British sterling. As things stand to-day with irredeemable paper money as legal tender in both countries, the South African pound and the British pound are units of separate and distinct currencies. The purchasing power of one depends on the monetary policy of the Union Government, whilst the purchasing power of the other depends on the monetary policy of the English Government; and the two currencies can only be assimilated by one of the parties relinquishing its control over its own currency.

Undoubtedly there is a great deal to be said in favour of a uniform currency for England and South Africa, but as a matter of practical politics it appears to me that that can only be brought about by the resumption of specie payments with free gold markets in both countries. It is unquestionably to our interests to return to the pre-war gold standard without delay. On the other hand, there is in England a large and influential body of opinion in favour of a managed-money policy having as its aim the stabilization of prices. It is held that the inhabitants of Great Britain would gain enormously were they to succeed in stabilizing prices at, say, double the pre-war level. That, it is argued, would mean for England a reduction of 50 per cent. in the real burden of the debt and of taxation, compared with what would be the case were prices to revert to the 1914 level. Personally, I do not believe in the possibility of making a permanent success of a managed money. Moreover, I agree with the statement in the August Bulletin of the Royal Bank of Canada that for a country so largely dependent as England is on international trade, the ultimate advantages of a return to the gold basis should outweigh the temporary disadvantages, as the probabilities were that other countries in Europe and elsewhere would follow England's lead in resuming gold payments, thereby removing a good part of the handicap imposed on international trade by the exchange fluctuations of the last few years. As far as South Africa is concerned, however, there can be no question that the success of the managed money movement on the lines advocated by Mr. Keynes and others would mean in time doubling the 1914 working costs of our mines and closing down all but half a dozen or so of our richest mines, with disastrous results in many other directions. I dealt with this matter in—

(a) A letter dated 26th September, 1923, which I addressed to General Smuts [Appendix (a)].

(b) An article on the managed money movement published in March, 1924 [Appendix (b)].

(c) My speech at the Crown Mines Annual Meeting on 20th May last [Appendix (c)].

(Copies of these statements are attached.)

I also attach [Appendix (d)] extracts of the speeches of Mr. Baldwin, the present Prime Minister of England, in which he favours the substitution of a policy of price stabilization for that of the progressive deflation recommended by the Cunliffe Committee. As far as I know, this still represents Mr. Baldwin's views. An extract from a statement made by the ex-Prime Minister in the
House of Commons on 18th February last is added. It will be noted that Mr. MacDonald, when he was Prime Minister, stated that—

"The Government are still guided by the conclusions of the Committee on Currency and Foreign Exchanges, commonly called the Cunliffe Committee."

The accompanying table [Appendix (c)] and chart* of the fiduciary circulation of British currency notes confirm the view that the British Government are not now acting on the advice given them by the Cunliffe Committee.

3. *If your answer to question 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?*

As stated in answer to previous questions, I consider that South Africa should restore the gold standard on the 30th June next, if necessary independently of England. The possibility of further depreciation of gold in England is a very real one. As I pointed out in my letter to General Smuts of 26th September, 1923 [Appendix (a)], Mr. J. M. Keynes and other influential authorities in England hold strongly that England has "a big interest in gold having as low a value as possible." It is urged that on every ground "it is a British interest (except for shareholders in gold mines) that gold should fall in value."

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 1819?*

The Resumption Act of 1819, known as Peel's Act, required the Bank of England to resume specie payments by stages, redeeming its notes on demand (when tendered to "an amount of not less than the price or value of 60 ounces" of standard gold) in ingots or bars of standard bullion ("the same having been first assayed and stamped at His Majesty's Mint in England") at the following rates:

- 1st February, 1820, to 1st October, 1820, at £4. 1s. per ounce standard;
- 1st October, 1820, to 1st May, 1821, at £3. 19s. 6d. per ounce standard;
- 1st May, 1821, to 1st May, 1823, at £3. 17s. 10½d. per ounce standard;
- and thereafter in gold coin.

By the Act of 7th May, 1821, "making further provision for the gradual resumption of payments in cash by the Bank of England," the bank was allowed to pay in coin or in ingots as it pleased. Payment in ingots of 60 ounces was permitted till the 1st May, 1823. The bank, however, resumed payment in coin after the passing of this (1821) Act.

I doubt if we in South Africa have anything to gain by resuming cash payment in stages. On the whole, and in view of the fact that the South African paper pound is almost on a parity with gold, I should say that the complete restoration of the gold standard on 30th June, 1925, would be preferable.

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) Union Government's finances?

(a) and (b). There will be fewer and less violent fluctuations in prices and in the cost of living, and consequently in wages, owing to the greater stability of the gold standard as compared with irredeemable paper.

* See Report, Annexure 8.
The restoration of the gold standard will be helpful to production, as it will mean fewer risks and greater security for capital. This also applies to our export and import trades.

Our trade with the outside world is in reality barter, it is generally an exchange of goods for goods, and under a paper-currency regime that is almost entirely the case. In pre-war days our exports could have been paid for, wholly or partly, in gold, which was then the money of England and of South Africa, but to-day our exports cannot be paid for in Bradburys, as Bradburys cannot be used as money in South Africa. Neither can imports from England into South Africa be paid for by our paper money, as that is not legal tender in England. Now, whilst the paper-money regime lasts, it is obvious that the expenses connected with the exchange of South African products for British products are bound to be higher than they were in pre-war days, owing to the uncertainty as to the relative values of the two currencies. The restoration of the gold standard here should therefore be helpful, as it will remove a good deal of the uncertainty as to the value of our money at any rate.

The South African paper pound has a greater value to-day than the English paper pound, but the South African exporter is not getting the full benefit of that greater value because of the uncertainty as to how long it will continue. The restoration of the gold standard will remove that uncertainty, and the South African exporter will then get better value for his products than is possible under the paper-money regime, simply because there will be no necessity for bankers, merchants, and shopkeepers to insure against possible violent fluctuations in the value of one, at any rate, of the currencies.

The restoration of the gold standard will probably aggravate the burden of taxation. The remedy is for the Government to curtail public expenditure so as to permit of a reduction in taxation. That is a much lesser evil than would be the continuance of an unstable currency.

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?

Unquestionably the restoration of the gold standard will tend to attract capital. A sound currency of itself, however, may not be enough. At the moment the high income tax and super income tax, and the excessive death and succession duties, are also important factors in driving away and in keeping away capital from South Africa. Other countries, such as the great South American States, are attracting capital from Europe and the United States. They are not on the gold standard, but the taxation of capital is not so oppressive in those countries as in 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?

The effect would be to diminish the uncertainty as to the relative values of the two currencies.

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?

There is no evidence that Great Britain intends to resume a free gold basis within the next twelve months. On the contrary, as I have already pointed out, the evidence is all the other way. Moreover, even if it were certain that both countries would restore the gold standard within a year, I do not think the fact that the resumption takes place at different dates and not simultaneously will make any material difference.
9. If South Africa should return to the gold basis on 30th June, 1925, independently of Great Britain, what special measures, if any, should be taken to enable her to maintain gold payments?

Having regard to the present purchasing power of the South African pound, it does not appear to me that any special measures are called for.

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

I am a little doubtful as to whether or not the Reserve Bank can be of much use in connexion with the restoration of the gold standard. We want a self-regulating currency, not a managed currency. Having regard to the extent to which the Government and the people of South Africa are dependent on gold production, I hardly think that it is an exaggeration to state that reserve banks are institutions which are fundamentally inimical to the best interests of South Africa. The Reserve Bank is a piece of machinery expressly designed to advance and bolster up the movement, whereby the use of gold for monetary purposes may be reduced to a minimum. If gold is not used as money, or is only used to a very limited extent as money—the extent contemplated by the Genoa Conference, for instance—its value in other commodities by fall to half, or even a third, of what it was in pre-war days, with the result that the working of practically all the gold mines of British South Africa would be rendered unprofitable. It was by means of reserve banks that the Genoa Conference, which met in April, 1922, hoped to bring about an international agreement which should have the effect of preventing an increase in the then depressed purchasing power of gold. The fact is, reserve banks here and elsewhere have been brought into existence for the specific purpose of depreciating gold, or keeping it depreciated by economizing its use as money. That appears to me to have been the actual result of the creation of the Federal Reserve Banks in the United States of America. Such a policy may or may not be sound and desirable for countries whose people and whose revenues are not dependent on gold production, but obviously it is a wholly disastrous policy for a country so largely dependent on gold production as South Africa.

Hitherto the activities of the South African Reserve Bank have been in the direction of retarding the restoration of the gold standard. Judging by what Mr. Burton (then Minister of Finance) said in the House of Assembly on 21st March, 1923, the probabilities are that the restoration of the gold standard in South Africa would have taken place at the end of June last year had it not been for the action of the Board of the Reserve Bank. According to Mr. Burton, the Directors of the Reserve Bank were exclusively and entirely responsible for the Currency and Banking Act Amendment Act of 1923, which saddled South Africa with an inconvertible paper money for a further period of two years, and this was done at a time when the South African pound was practically on a parity with gold (see memorandum on the Currency and Banking Act Amendment Bill, 1923, attached—Appendix (f)).

It has been and is being constantly asserted in Parliament and out of Parliament that the creation of the Reserve Bank and the currency and financial policy pursued at the beginning of 1920 saved South Africa from disaster. It is argued that the Government and Parliament were forced to do what they did in order to prevent the country being drained of its gold. Now, 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 extravagant credit policy of at any rate some of the banks, and for no other reason. Clearly, the proper remedy was to compel the banks to put their own houses in order, stop the over-issue of paper money, and gradually reduce the excessive circulation of paper money until parity with gold was reached. The Government in power, however, accepted the view that there had been no over-issue of paper money, and adopted a policy aiming at economizing the use of gold. In other words, they penalized the gold mining industry and the whole of South Africa, for the sins of the bankers.
I believe that a careful examination of all the facts by a competent authority would prove that the banking and currency policy favoured by the Government and Parliament in the early months of 1920 did infinitely more harm than good. It encouraged and aggravated the inflation movement which began to make itself seriously felt in South Africa in the last quarter of 1919. It led people to believe that the inflationary prices which then existed had not been caused by the over-issue of irredeemable paper money by the banks, and that in all probability 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 with wholly disastrous consequences when the day of reckoning came. Indeed, the policy pursued in the first half of 1920 led, later on, to a greater number of bankruptcies amongst our farmers and the commercial people than had ever happened in any similar previous period in the whole history of South Africa. Moreover, that policy has 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 is not to be wondered at that South Africa is not attracting either immigrants or capital, and I feel convinced that it is safe to prophesy that South Africa is not likely to attract either immigrants or capital until there is a complete reversal of the currency and taxation policy inaugurated at the beginning of 1920.

Johannesburg, 17th December, 1924.

APPENDICES TO STATEMENT AND EVIDENCE OF MR. S. EVANS.

Appendix 10.

(a) Copy of a letter to General Smuts, dated 26th September, 1923.

(b) Extract from an article on "The Managed Money Movement," published 11th March, 1924.

(c) Extracts from speeches delivered at annual meetings of the shareholders of the Crown Mines, Limited, held at Johannesburg on 25th May, 1923, and 20th May, 1924.

(d) Extracts from speeches of Mr. Stanley Baldwin, and of a statement by Mr. J. Ramsay MacDonald.

(e) Table: Fiduciary Circulation of British Currency Notes.

(f) Memorandum on the Currency and Banking Act Amendment Bill, 1923.

(g) The American debt settlement and the depreciation of gold. Mr. J. M. Keynes's views.


APPENDIX 10 (a).

DEAR GENERAL SMUTS,

May I venture to approach you once more on the currency problem? My excuse for doing so is the far-reaching importance of the subject, particularly from a South African point of view, and the probability that it may be considered at the forthcoming Imperial Economic Conference. There is no question of greater urgency confronting the British Empire and the world to-day than that of the restoration of a sound and reasonably stable medium of exchange.
As you are no doubt aware, there is on foot, in England and elsewhere, a strong and widespread movement in favour of the partial or total abandonment of the gold standard as it existed prior to 1914, and the adoption for the British Empire, and if possible for other countries, of a monetary system controlled and managed by Governments, either directly or indirectly, through central banks.

You will remember that in 1918 and 1919 the Cunliffe Committee recommended the return to the old gold standard of pre-war days. That involves deflation, and it is held that deflation is the real cause of the unemployment, restricted trade, and depression which exist to-day in the United Kingdom and elsewhere. Mr. J. Maynard Keynes, speaking at the Liberal Summer School at Cambridge on 8th August last, said: "I attribute the bad state of business and of unemployment far more to a lack of confidence in the general price level on the part of the business world than to any other factor." It is pointed out that France and other countries, where there has been no deflation, are prosperous and have all their workers fully employed. It is therefore proposed that there be no further application of the policy of the Cunliffe Committee and that an attempt be made to establish a currency system which can be so manipulated by its controllers as to eliminate violent fluctuations and maintain prices at any desired level.

I dealt with stabilization plans in a memorandum which I prepared for the Pretoria Currency Conference in 1921 and in my speech at the last annual meeting of the shareholders of the Crown Mines (25th May, 1923). The movement has gathered considerable strength and importance since. Its supporters now include Mr. Baldwin, the Prime Minister, and two ex-Chancellors, Sir Robert Horne and Mr. McKenna. In a leading article in The Times of 7th August last it is stated that "the general feeling of the business community, including the bankers, favours a policy of price stabilization."

It is important that we should clearly understand that the adoption of any one of the proposed stabilization plans may mean the destruction of the gold-mining industry.

The success of any plan for stabilizing prices will depend on the extent to which the use of gold by the public can be restricted and its commodity value effectively controlled. The promoters of schemes for the stabilization of prices realize that they can only achieve their purpose through a managed currency, based on the principle of quantitative regulation and entirely, or almost entirely, independent of gold; a currency which, in any case, will permit of the greatest economy in the use of gold. They want to prevent gold coming into circulation again and to keep its value measured in commodities at a low level. Speaking at Oxford on Saturday, 22nd September, 1923, Mr. H. D. Henderson, the editor of The Nation, said that prices and trade cannot be kept on an even level "without a monetary policy entailing either the final abandonment of the gold standard or cooperation between the central banks of the various countries to stabilize the purchasing power of gold." If the use of gold as money is to be partially or totally abandoned, its value in other commodities will inevitably fall, and may even fall to an extent which will make the working of the richest mine on the Rand unprofitable.

As to the extent to which it is proposed to depreciate gold:—

Mr. Baldwin, the Prime Minister, is, it appears, in favour of stabilization at the present level of prices (see speech in the House of Commons on the Third Reading of the Mines Bill on 4th July, 1923), which would mean reducing the purchasing power of gold as compared with 1913 by about 40 per cent., perhaps 50 per cent.

Mr. E. M. H. Lloyd, in a book on "Stabilization," which has attracted considerable attention, proposes that prices should be stabilized at 85 per cent. above the pre-war level; that is, the purchasing power of gold should be reduced by 46 per cent.
Mr. W. T. Layton, the Editor of *The Economist*, advocates a currency policy "which would aim at stabilizing prices at about 100 per cent. above the pre-war level," thereby reducing the purchasing power of gold by 50 per cent. The burden of the British debt, Mr. Layton states, "depends very much upon what the future level of prices is going to be." . . . "If prices, wages, etc., fall to the pre-war level, the burden of the debt would become extremely onerous. The future of prices is to some extent in our own hands. Our monetary policy will determine whether this problem of the debt is manageable or not, as it will determine many other future questions." (Lecture at Liberal Summer School at Cambridge, 4th August, 1923.)

It is argued that were England to return to the pre-war gold standard with a free market in gold and prices at about the 1913 level—

(a) British manufacturers would be enormously handicapped in their competition for world markets with France and other countries where the cost of production has been automatically reduced by inflation, and

(b) that it would be impossible for the country to carry its debt burden, and as a result national bankruptcy would become inevitable.

It is contended by Mr. Keynes and others that England has "a big interest in gold having as low a value as possible." Mr. Keynes adds: "If the commodity-value of gold were to rise to what it was in 1914, the real burden of the American debt would be increased 50 per cent.; and if it were to fall to what it was in the summer of 1920, the real burden would be decreased nearly 50 per cent." . . . "Nothing can alleviate the burden of the American debt except a fall in the commodity-value of gold." In the event of the depreciation of gold "the policy of price stabilization will favour a recovery of sterling to its gold parity and even higher." "This development," proceeds Mr. Keynes, "is much to be hoped for; for in that case price-stabilizers will be able to claim 'respectability' as well as wisdom, and will be freed from the moral taint which seems to attach at present to any one who does not object to a fall of the sterling exchange.

When price stabilization does not require a devaluation of the old standard, but even involves raising it above its old parity, many sturdy prejudices against such an innovation will disappear. On every ground, therefore, it is a British interest (except for shareholders in gold mines) that gold should fall in value."

If the above reasoning is sound, it follows that in this matter the interests of England and those of South Africa clash. I do not however, agree with Mr. Keynes, for if account is taken of the gold claims of the British people against foreigners, the probabilities are that on balance England would lose and not gain by the depreciation of gold. In any case, it is obvious that if the policy of Mr. Keynes and his friends is adopted and succeeds, South Africa will be irretrievably ruined. The working costs of the gold and coal mines will be raised 70 per cent. or 100 per cent. or more above the pre-war figures, rendering unpayable all the mines on the Rand excepting perhaps half a dozen, and throwing out of employment something like 18,000 Europeans.

As I have repeatedly stated publicly in the course of the past few years, I am convinced—

(a) that no monetary system can be made a permanent success which is not self-regulating, fool-proof, and burglar-proof;

(b) that in the present-day world stability of prices and exchanges equal to that which prevailed before the war is wholly unattainable without the gold standard, notwithstanding its drawbacks; and

(c) that every attempt to establish a currency which involves the restriction or the prohibition of the use of gold will not only fail ultimately, but will almost certainly do infinite harm in the long run.
There is, however, always the possibility that some such policy may have a transient success sufficiently long in duration to bring disaster upon South Africa, and that is why I urge that all price-stabilization plans and all managed-currency schemes should be uncompromisingly opposed from the outset. It would, I am sure, be a grave and irreparable mistake for the Union Government to delay action in this matter pending the trial of any managed-currency system. Experiments with managed currencies may prove as harmful to England as to South Africa. They will simply mean the prolongation and the aggravation of the monetary disorders from which the world has been suffering in recent years; and no country will be injured more than England, which is so completely dependent on the restoration of a sound money as the medium of exchange in foreign trade transactions.

Were it reasonably probable that any particular plan for the stabilization of prices could be made a permanent success it might perhaps be held that the sacrifice of European civilization in South Africa is justifiable in the interest of humanity as a whole. It is important, however, that we should clearly understand what is at stake in these currency experiments. I hardly think it possible to exaggerate the gravity of the issues involved as far as South Africa is concerned.

In conclusion, I venture respectfully—
(a) to urge that you should use your great influence in favour of the removal of all embargoes and other artificial hindrances on the free movement of gold in all parts of the world; and
(b) to direct your attention to paragraph III of the Report of the Currency Conference held at Pretoria, October, 192 (U.G. 9-22), in which the Government of the Union was advised: "resolutely to oppose proposals aiming at the establishment, under the auspices of the League of Nations or otherwise, of a managed currency, or any monetary system which is not self-regulating and involves official interference or which has for its object the partial or total substitution of paper for gold for monetary purposes, or which is intended to stabilize the value of gold when measured in other commodities, or to economize gold by the extended use of paper money under the control of local or international Governments."

Believe me,

Yours sincerely,

SAMUEL EVANS.

APPENDIX 10 (b).

THE MANAGED-MONEY MOVEMENT.

By SAMUEL EVANS, Chairman of the Crown Mines.

(Extract from an article published in the Financial Supplement of The Star, Johannesburg, on 11th March, 1924.)

Early in 1922 it became evident that a very influential group of political and financial leaders in England were disposed to oppose the continuation of a monetary policy based on the report of the Cunliffe Committee, and desired the adoption instead of a monetary policy aiming at the stabilization of prices at the then level, or preferably at a higher level.

Sir Robert Horne, the Chancellor of the Exchequer, answering a question in the House of Commons on 2nd March, 1922, said that "he would not care to prophesy how soon the state of the exchange would permit of a full restoration of the gold standard in this country (England). In any case, he hoped that when that time came the community would recognize both the superior convenience of paper money over gold coin and the desirability in the general interest of economizing in the use of gold as currency."
That marks the beginning of a trend in England in the direction of managed money. At the Genoa Conference in April, 1922, the scheme was advanced a step further. That conference recommended in effect, a managed gold standard, so managed by central banks as to prevent an increase in the purchasing power of gold. The movement continued to gather strength, and it became quite fashionable towards the middle of last year (1923). To quote an American authority, there existed then in England a considerable and by no means unimportant body of persons, among them statesmen, bankers, leaders of industry and trade and publicists of recognized importance, who held that upon various grounds it was inexpedient and undesirable from the standpoint of Great Britain's financial, economic and social interests that the currency and price inflation made necessary by the exigencies of war, should be terminated in the near future." (The Economic World, New York, 27th October, 1923.)

Mr. Keynes's managed money scheme involves a revolutionary departure from the traditional monetary policy of Great Britain. As I have shown, the movement is of comparatively recent growth, and I am afraid that it can be said without injustice, that as far as the British Empire is concerned, South African statesmen were among the earliest of Mr. Keynes's disciples. They acted on his advice in 1920. And in May last year, when the paper money of South Africa was nearly on a parity with gold, the Government and the Parliament of the Union decided against a return to the gold standard and in favour of extending and consolidating the use of inconvertible paper money for a further period of two years.

It is true that recently there has been a reaction both in England and here against the managed money idea. Certain indiscrete disclosures on 10th October last (1923) by Sir Montagu Barlow, Minister of Labour, in reference to a scheme for inflating the British currency to the extent of £100,000,000 led to something in the nature of a debacle in the dollar-sterling exchange market and caused some of the leading partisans of the managed money movement to beat a hasty retreat.

As a result, the Imperial Economic Conference met at the end of October last (1923), in an atmosphere rather more favourable to the old-fashioned gold standard than had been the case at any time since the beginning of 1922. At that Conference the currency problem was referred to a committee presided over by Sir Charles Addis, a leading champion of the pre-war gold standard. In presenting the report of the committee Sir Charles stated that they contemplated the early restoration of an effective gold standard. The report turned down the Darling scheme, and was quite satisfactory in other respects. From the South African point of view the most gratifying occurrence at the Imperial Economic Conference was the declaration of Mr. Burton to the effect that the Union Government would stick to sterling only so long as the monetary policy of the British Government was in the direction of the restoration of the gold standard; "but," he added, "we certainly should not stick to sterling if there were a change of policy in this respect."

This, it appears, represents the settled policy of the Union Government to-day, as, in answer to a question by Mr. Nathan in the House of Assembly on 26th February last, Mr. Burton said:—

"(1) In terms of the existing currency legislation, the Union will restore the gold standard when gold certificates become convertible, either by the operation of Sub-section (3) of Section 7 of Act No. 31 of 1920, as amended by Section 2 of Act No. 22 of 1923, which provides for the resumption of convertibility on 30th June 1925, or by the price of gold in the Union returning to its old parity of £3. 17s. 10½d. per standard ounce prior to that date; (2) there is no present intention of modifying the terms of this legislation, and in no case would the Government be prepared to undertake that the Union will defer the restoration of the gold standard until the United Kingdom does so."
It is to be hoped that the Parliament and the public of South Africa will support unhesitatingly the monetary policy outlined by Mr. Burton. He will unquestionably need all the support he can get, as bankers and others are sure to come forward, if they have not already done so, and urge the prolongation of the inconvertibility of our paper money beyond 30th June next year (1925). In fact, managed currency champions have for some time been pressing our farmers to agitate for the indefinite continuance of the existing system. I hardly think, however, that South African farmers to-day are so hopelessly blind as not to realize that they have been the greatest sufferers from the abandonment of the gold standard by this and other countries, and that they have more to gain than any other section of the community from the restoration of that standard.

In conclusion, let me say that, according to my reading, the history of money teaches this. Sooner or later all managed money plans will fail. Managed money is a money the value of which is controlled directly or indirectly by politicians. Nearly every country in the civilized world has at one time or another attempted to carry on business with managed money, but in the long run these experiments have always failed, sometimes disastrously. They have failed because politicians, even when they are called statesmen, cannot be trusted with the manufacture of paper money for any length of time.

APPENDIX 10 (c).

THE CURRENCY POLICY OF THE BRITISH GOVERNMENT.

(1.)

(Extract from speech by Mr. Samuel Evans at the Annual Meeting of the Shareholders of the Crown Mines, Limited, held at Johannesburg on 25th May, 1923.)

The paper money of South Africa is very nearly on a parity with gold, but unfortunately the Government and Parliament of the Union has just decided against a return to the gold standard at the end of next month and in favour of extending and consolidating the use of inconvertible paper money for a further period of two years. This decision has been taken on the recommendation of a majority of the members of the Board of the South African Reserve Bank. The main purpose of the Currency and Banking Act Amendment Bill appears to be to place and maintain our inconvertible paper money on a parity with the inconvertible paper money of the United Kingdom. In order to accomplish this, the paper money is made legal tender (hitherto only gold and certificates fully backed by gold have been legal tender), its inconvertibility is extended to 1st July, 1925, and the Reserve Bank is given power to issue currency notes against the deposit of British and South African Treasury bills to the extent of 35 per cent., provided 40 per cent. of the issue is backed by gold and 25 per cent. by commercial paper. That is, Treasury bills will take the place of gold in balancing our exchange transactions with the United Kingdom and will be, apparently, the means whereby the purchasing power of the South African paper pound will be kept on a level with that of the paper pound of the United Kingdom. Now, what is the present currency policy of the United Kingdom? Up to a comparatively recent date it would appear that the British Government was acting on the recommendations of the Committee on Currency and Foreign Exchanges, known as the Cunliffe Committee, which reported (first in August, 1918, and finally in December, 1919) in favour of the restoration without delay of an effective gold standard with a free market in gold. There is now, however, some evidence in support of the conclusion that the British Government are disposed to abandon the policy outlined in the Reports of the Cunliffe Committee, although, as far as I
know, there has been no official pronouncement to that effect. The recommendations of the Cunliffe Committee involved deflation, and Mr. Walter Leaf, Chairman of the London County, Westminster and Parr's Bank, recently declared that national policy of the United Kingdom is "a policy of stabilization but not deflation." The Chairmen and Directors of other English banks have also condemned the deflation policy of the Cunliffe Committee. Mr. Clegg, the Governor of the South African Reserve Bank, in his evidence before the Select Committee on 22nd March last, said: "I cannot express the mind of Great Britain, but what I have heard from people who know what is going on, there will be very considerable hesitation on the part of Great Britain to open a free gold market directly sterling reaches gold parity." (Q. 1567.) "Great Britain has this debt (to America) in front of her, and that seems to me to be a matter which will make her hesitate before she actually takes off the embargo on gold." (Q. 1569.) In The Economist of the 21st of last month, the Editor, in reviewing Mr. R. G. Hawtrey's book on "Monetary Reconstruction," states that "it is commonly believed that the Treasury and the Bank of England would like to translate into practice Mr. Hawtrey's managed-currency doctrine." Mr. Hawtrey holds that "the wisest course for the time being might be to concentrate on the stabilization of sterling in terms of commodities rather than tie the pound to a metal, the vagaries of which cannot be foreseen." (page 22, "Monetary Reconstruction"). Further deflation," he writes, "is out of the question, and all we can do is to stabilize our currency at its present purchasing power till the redundant supplies of gold now in America have brought down the commodity value of the dollar to the corresponding level" (page 147, "Monetary Reconstruction"). I should mention that in The Economist of 28th April Mr. Hawtrey writes: "The views expressed in my book have no relation to the proposal entertained by the Treasury or the Bank of England. They are entirely my personal opinion written in a spirit of scientific inquiry." On the recommendation of the Financial Commission, of which Sir Robert Horne, the then Chancellor of the Exchequer, was Chairman, the representatives of the Powers at the Genoa Conference held in April last year (1922), recommended that a meeting be called in London of the representatives of central banks to consider, amongst other things, a scheme for an international convention based on the gold exchange standard and designed with a view to stabilizing prices and to prevent undue fluctuations in the purchasing power of gold." According to the Editor of The Economist, Mr. Hawtrey's "inspired the Genoa resolutions on currency." As I pointed out at our meeting last year, even the temporary and partial success of the Genoa proposals might prove very harmful for gold mining, and it is possible that the contemplated conference of central banks has not been called because it was realized that when the matter came to be thoroughly thrashed out there might be considerable opposition from South Africa, Australia, and perhaps Canada, to the adoption of the gold exchange standard or any other managed-currency plan. Having regard to all the known facts, it seems not unjust to conclude that the present intention of the British Government is to avoid going back to the gold standard as it existed before the war, and to pursue a currency policy which will maintain, or possibly enhance, the existing level of prices of commodities and services. If it can be made a success, which I question, there are obvious advantages for the British Government in such a course. It will lighten the burden of the debt and of taxation and will mean a very substantial reduction in terms of commodities of the debt of the United Kingdom to the United States of America. As Mr. Walter Leaf points out, the fall in the purchasing power of the dollar in the past two years means a diminution in the British debt to the United States of America of over four hundred and thirty-two and a quarter million pounds. He adds: "The fall, I take it, represents the decrease in the value of gold owing to its exclusion from use as a circulating medium, and is likely to be of a permanent nature." As
I have repeatedly stated at our annual meetings and on other occasions, I do not believe in the possibility of any managed-currency plan being made a permanent success. I entirely agree with the conclusion of the Currency Committee of the British Association (Hull meeting, 1922), that, "taking a long view, the Governmental manipulation of currency has been and, as far as can be foreseen, is likely to be mischievous." Nevertheless, it is fairly certain that a persistent and prolonged attempt to establish a managed currency in the British Empire might do considerable harm to the Rand gold mining industry and to South Africa generally, and for that reason it is regrettable that the Government and the Parliament of the Union should be adopting a policy which may tend to prolong and aggravate our currency and exchange troubles. The Currency and Banking Act Amendment Bill was referred to the Select Committee on Public Accounts for consideration and report. That Committee examined six of the Directors of the Reserve Bank, the Secretary for Finance, and Dr. Bruwer—eight witnesses altogether. Apparently the supporters of the Bill considered that gold is only a fair-weather currency, and that in times of trial and trouble inconvertible paper is the money to use and to rely on. Much attention was paid to the bearing of the balance of trade on exchange rates, and stress was laid on the fact that South Africa is a debtor country, and that the bulk of our external trade is with the United Kingdom. In the discussion in Parliament it was made clear that the bankers were entirely responsible for the Bill. Mr. Burton, the Minister of Finance, in replying to the discussion on the second reading, on the 21st of March, said: "The whole of this Bill is the product of consideration and resolutions taken by the Board of Directors of the Reserve Bank without the faintest intimation by the Government on any one of these matters. The resolutions submitted to the Government and put into this Bill were resolutions which emanated solely and entirely from the Board of Directors of the Reserve Bank." It does not appear to have been realized that bankers are dealers in currency, and that usually they can make more profit out of paper money than out of gold money. I believe that a considerable portion of the profit which the Reserve Bank is now making out of paper currency would disappear if gold came into circulation again. I also believe that the other banks can make a much larger profit out of exchange transactions when the gold standard is in operation. Under these circumstances, it is not likely that the time to revert to the gold standard will ever arrive if bankers are to have their way. As Professor Bonamy Price and Professor W. G. Sumner have pointed out, the currency troubles of England during the bank restriction period and of the United States at the time of the greenbacks were unnecessarily prolonged because of the advice of bankers. However, I am not so despondent about the future of gold as this criticism of the action of our Government and Parliament might lead you to conclude. We are going through precisely the same experience as the British people went through after Waterloo and the Americans after their Civil War and I have no doubt whatever that the eventual upshot will be the same; we shall be forced to drop all managed-currency plans and to revert to a self-regulating gold money, the value of which cannot be controlled by Governments and bankers.

(II.)

(Extract from speech by Mr. Samuel Evans at the Annual Meeting of the Shareholders of the Crown Mines, Limited, held at Johannesburg on 20th May, 1924.)

At our meeting last year I pointed out the possible danger to the Rand Gold Mining Industry and South Africa generally which might result from the action of the Government and the Parliament of the Union in persisting in a policy which tended to prolong and aggravate our exchange and currency troubles. The monetary situation here is still unsettled and disquieting. It has no doubt been made worse by the stabilization policy which the British
Government appear to have pursued since the spring of last year and which has led to a general rise in prices and in the cost of living in England. That has not only depreciated the British paper pound as compared with the dollar, but it has also widened the difference between the purchasing power of the British paper pound and the South African paper pound, with the result that our banks have accumulated in London large balances which can only be transferred to South Africa by making the exchange rate high enough to account for a part, at any rate, of the disparity in the commodity value of the two currencies.

There are several ways in which this disparity may be eliminated. The most satisfactory and the only permanent solution would be for both countries to restore the gold standard with as little delay as possible. Then the adjustment in the purchasing power of the two currencies would take place automatically. Other possible solutions are:

(a) Deflation in England, i.e. the lowering of the general level of prices there to the extent necessary to make the British paper pound as valuable when measured in commodities as the South African paper pound, or

(b) Inflation in South Africa, i.e. the raising of the general level of prices here to the extent necessary to depreciate the South African paper pound to the level of the British paper pound.

As there is on the other side a very considerable and influential body of opinion against further deflation, I am afraid that we are not likely to see in the near future either the early restoration of the gold standard in England or the adoption by the British Government of effective steps for raising the British paper pound to the level of the South African paper pound. There remains the third course, namely, further inflation in South Africa, which the powers that be here can adopt without the intervention or the cooperation of England. Now is that too high a price for South Africa to pay for parity with sterling? If it is, then what should our monetary policy be? As things are today I submit that we have the choice of three courses:

(1) We can adhere to our own currency policy and our own price level, keeping steadily in view the desirability of the complete restoration of the gold standard on the 30th June, 1925; or

(2) we can link our currency with that of England, but only so long as the British monetary policy is definitely in the direction of the restoration of the pre-war gold standard; or

(3) we can link our currency with that of England regardless of what the British currency policy may be.

The first policy differs from the second only in this respect; it fixes a definite date for the complete restoration of the gold standard. The second policy is the one to which the Union Government is committed. It is the policy laid down by Mr. Burton at the Imperial Economic Conference in October, 1923. In the House of Assembly on 26th February last, in reply to a question by Mr. E. Nathan, Mr. Burton stated that in terms of the existing currency legislation the inconvertibility of our paper currency would cease on 30th June, 1925, or earlier should the price of gold in the Union return to its old parity of £3. 17s. 10d. per standard ounce. "There is," he added, "no present intention of modifying the terms of this legislation and in no case would the Government be prepared to make that the Union will delay the restoration of the gold standard until the United Kingdom does so."

In recent months there has been widespread agitation in the Press and in public speeches in favour of the abandonment of the policy outlined by Mr. Burton and the adoption of the third solution, that of following England blindly and linking our currency to British sterling regardless of the consequences. In the House of Assembly on 8th April, Mr. Papenfus directed the attention of the Minister of Finance to this agitation. Mr. Burton
declined to make any pronouncement as to the possible extension of the inconvertibility of South African paper money beyond the end of June, 1925, and added "I may say, however, that it was my intention that an expert inquiry should be held later in the present year into the question of the Union resuming the gold standard independently of Great Britain."

The view appears to be pretty widely held that persistence in the attempt to restore the gold standard in South Africa independently of England will impose a distinct handicap on our farmers and other exporters. As I understand the position, it is desired that we should adopt what has been called the sterling exchange standard, which has been in operation between England and Egypt since 1916. Under that standard the purchasing power of the British paper pound and the South African paper pound would be kept at approximately the same level, with the exchange steady in the neighbourhood of par, by the purchase and sale of British Treasury bills. For instance, our London balances would be transferred to South Africa by the issue of notes here against the deposit of British Treasury bills. In a word, the British Treasury bill would become the balancing factor, and gold would not be required at all. As a matter of fact this system can be, and is being, applied to a limited extent under section 17 of the Currency and Banking Act Amendment Act, 1923.

Now let us consider for a moment what the definite adoption by the Union Government of the sterling exchange standard might lead to.

In the first place it would mean handing over the control of our currency to a body of politicians in England. In 1914 the British Parliament empowered the Imperial Government to increase or decrease as it thinks fit the volume of legal tender money. That is still the position. I fully realize that there are very distinct advantages in keeping our paper pound on a parity with the British paper pound, provided the risk involved is not too great. In my speech last year I gave my reasons for believing that the British Government had in reality abandoned, for the time being at any rate, the policy of raising the paper pound to parity with the gold pound by gradual deflation as recommended by the Cunliffe Committee, and were pursuing a policy designed to maintain or enhance the then level of the prices of commodities and of services. Up to about the beginning of October last, a number of influential bankers, industrial houses, and acknowledged experts on monetary science in England were disposed to abandon the gold standard, partially or wholly, and were openly advocating as a part remedy for the industrial ills of Great Britain:

1. The adoption of a monetary system "designed to secure stability of the general level of prices";
2. "A moderate degree of inflation . . . as a preliminary to putting into force an effective policy of price stabilization"; and
3. the application to the British Empire of a currency system based, not on gold but on sterling assets, such as Treasury bills.

From what has transpired since, it would appear that the British Government did tacitly substitute a policy of price stabilization for that of gradual deflation in the early months of 1923. "Down to that time," writes Professor Cannan in The Times of 22nd February last, "a gradual reduction was being made in the total number of paper pounds in circulation: a reduction which went through all the seasonal variations and can be seen more clearly in a chart than in a table of figures. In the latter part of this period the reduction was not more than enough to keep prices approximately stable. To ensure continuance of stability, a continuance of reduction for some further time, probably for a long time, was required. But the policy of reduction was abandoned in favour of a policy of keeping the amount out-
Moreover, there are many indications that the danger of the betrayal of the gold standard by England is not yet past. A great many influential public men in the Old Country are still clinging tenaciously to managed-currency ideas. The action of the British representatives on the Dawes Committee in opposing the proposal...
of the American experts for a complete gold standard for Germany with free trade in gold is distinctly disturbing from the South African point of view, as it shows that the attitude of the MacDonald Government towards the gold standard does not differ so very much from that of the Baldwin Government. Evidently they are not enthusiastic about a return to the gold standard; neither are they consistent. They object to preference because it violates the principles of free trade, and at the same time they oppose free trade in gold in Germany. I do not think that I need further enlarge on the undesirability of placing the management of our money unreservedly into the hands of a political body in England.

The second argument against unconditionally linking our currency with the British paper pound is this: It would necessitate an increase in the general level of prices here with a corresponding rise in the cost of living and widespread agitation for increases in wages. It must be remembered that wholesale prices in England have gone up 11 or 12 per cent. since the middle of last year, whilst the increase in wholesale prices in South Africa in that period is less than 6 per cent.

In the third place, the linking of the South African paper pound to the British paper pound would involve not only a further departure from the gold standard but it might eventually lead to the partial or even the complete abandonment of that standard, for a time at any rate, possibly a time sufficiently long to ruin this industry. If a managed paper money such as the sterling exchange standard is the best for the next two or three years, why not for the next five or ten years?

It was for the above and other reasons that the Australian Commonwealth Notes Board “definitely rejected the scheme (sterling exchange standard), being of opinion that while quite feasible in operation it would produce the evil consequences attendant upon inflation.” (Times Trade Supplement, 1st March, 1924.)

It is true that adherence to the policy laid down by Mr. Burton and the rejection of the sterling exchange standard plan may involve the loss of the premium on gold sooner than would otherwise be the case. That is undoubtedly a point which should be carefully considered. Now the premium is a very precarious foundation on which to build a policy; it is due mainly to the fact that the general level of prices is higher in England than it is in the United States. The price of gold in sterling depends on the value of sterling in dollars. That is on the rate of exchange between London and New York. That rate reflects the relative purchasing power of the two currencies. The premium will disappear, therefore—

(1) if the British Government abandons the attempt to stabilize prices and resorts again to deflation as recommended by the Cunliffe Committee; or

(2) if prices in America rise to the level of the prices in England. That means a further depreciation of gold and is precisely what is desired by the advocates of stabilization in England. It may be helpful to England, but that is questionable, and there is no doubt that it would be disastrous for us; or

(3) the premium may disappear and the sterling price of gold may fall below even 85s. per fine ounce should the American mints be partially or entirely closed to gold. I need hardly point out how grave the consequences of such a step would be for this industry.

Moreover, if the premium continues for any length of time it is almost certain to bring about a state of affairs here which will nullify, or even more than nullify, the benefits which the mining companies now derive from the premium. The level of prices and the cost of living will gradually rise until the South African paper pound has been debased to the level of the British paper pound, unless the rate of exchange is raised to and kept at a level
sufficiently high to maintain the equilibrium between the two currencies. Taking everything into consideration, I feel convinced that, if appointed, the expert inquiry suggested by Mr. Burton will show that those who are urging the Government to remedy the present exchange situation by definitely linking our currency with that of England, without regard for what England's currency policy is, are in reality asking for a fresh dose of inflation. In other words, they want South Africa to start again on the "vicious circle" through which we passed in 1920, 1921, and 1922; and the next experiment with inflation may have a far more calamitous ending than the last.

**APPENDIX 10 (d).**

Mr. Baldwin on the Stabilization of Prices.

Speaking in the House of Commons on 4th July, 1923, Mr. Baldwin, then Prime Minister, said:—

"He had been asked by Mr. Hilton Young what the policy of the Government was—whether they were inflationists or deflationists or, using a word of his own mintage, non-flationists. He suggested a better word than non-flationist—the American word 'mugwump.' He thought he was a mugwump himself. He agreed that the right policy was to do all in their power to keep prices steady and on a level. One of the things that had contributed most to a steadier feeling in industry was that people felt they were getting down more or less to a stabilized basis of prices, and he would set his face against any policy that would tend to disturb that. Whether they would be able within a measurable distance of time to get back the gold standard was a matter which, at this moment, it would be scarcely profitable to discuss."

In a speech delivered at Plymouth on 20th October, 1923, Mr. Baldwin stated:—

"We are not, in present circumstances any more than we have been for many months, pursuing a policy of active deflation, and we certainly do not propose to proceed in the direction of inflation."

Mr. MacDonald, then Prime Minister, replying to a question in the House of Commons on 18th February, 1924, stated that:—

"The reappointment of a Committee on Currency and Foreign Exchanges at the present time would be premature and inexpedient; the Government are still guided by the conclusions of the Committee on Currency and Foreign Exchange, commonly called the Cunliffe Committee."

In a discussion on Monetary Reform at a meeting of the Fellows of the Royal Economic Society, held on 14th April, 1924, at the London School of Economics, Mr. J. M. Keynes said:—

"I am afraid there is no room for agreement between us and Sir Charles Addis, if Sir Charles insists on immediate deflation. On that matter the Government, I think, are in a contradictory position, both this and the previous Governments, when they state that their object is to get back to a gold standard as soon as possible, yet also at times admit in public, as Mr. Baldwin did, that the policy of deflation has been definitely reversed. The Government think it wise to placate Sir Charles Addis by stating that their intention is to return to the gold standard. But fortunately they are not so foolish as to take any active steps in that direction. They have, in fact, no clear policy, but so far as they have one at all, they seem to aim at some measure of stability for the present, and, as Mr. Hawtrey suggested, have postponed making up their minds any further until they see what happens to exchange, hoping that the natural course of events will bring sterling to its parity with gold without any degree of inflation."
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*From The Manchester Guardian Commercial.*
MEMORANDUM ON THE CURRENCY AND BANKING ACT

AMENDMENT BILL, 1923.

As I understand it, the Bill to amend the 1920 Currency and Banking Act provides for—

(1) extending the inconvertibility of our paper money for a further period of two years;

(2) reducing from 13 per cent. to 10 per cent. the gold reserve which the commercial banks are required to maintain against deposits;

(3) the issuing of paper money against Union and British Treasury bills to the extent of 35 per cent. of the total note issue, provided 25 per cent. of the issue is backed by commercial paper;

(4) making the notes of the Reserve Bank legal tender (at present only gold certificates fully backed by gold are legal tender);

(5) strengthening the control of the Government over the Reserve Bank (under the existing Act the Government nominate five directors out of eleven; under the Bill they nominate five directors out of ten); and

(6) abolishing the right of the commercial banks to nominate three members of the Board.

Proposals (1) to (4) are of an inflationary character, and it appears to me that the measure might very properly be described as a Bill to extend and consolidate the use of paper money in place of gold for monetary purposes. In fact, the Bill is a shameful betrayal of gold by the one Government of the world which might have been expected to do its best to rehabilitate gold with the least possible delay. An intelligent foreigner judging by the banking and currency policy of the Union in recent years might reasonably conclude that the most important industries in South Africa were the manufacture of paper and printing, and that gold was a superfluous luxury, the possession of which by the inhabitants of the Union should be discouraged as much as possible. Frankly, one can hardly conceive a more suicidal policy on banking and currency matters for South Africa than that which the Government is pursuing. The South African paper money is to-day practically on a parity with gold, but instead of following the example which the United States of America set in 1919 and going back to gold and the relative stability which that would mean, the Government proposes to prolong the agony and uncertainty by extending and entrenching the use of inconvertible paper money for a further period of two years. I note that Mr. Burton contends that he is carrying out the recommendations of the Currency Conference which sat in Pretoria in October, 1921. That conference suggested that the inconvertibility of the gold certificate be provisionally extended to 30th June, 1923:

“Provided that it is clearly understood that this prolongation of the inconvertibility of paper money be not taken advantage of to further inflate the currency, and provided further that should the market price of gold in the Union at any time within that period fall to £3. 17s. 10d. or less per standard ounce and so continue for a continuous period of 30 days, the power of the Governor-General to suspend the redemption of gold certificates shall automatically lapse.”

[Paragraph (VI).]

At the time that recommendation was made gold was still selling at about 105s. per fine ounce, and the value of the $1 Bradbury was under four dollars. To-day the English paper pound is only 3 per cent. below par, and the South African paper pound is practically at par. Obviously the right thing now, and the only right thing, is for South Africa to revert to the gold standard by letting sub-section (6), section 7, of the Currency and Banking
Act, 1920, stand, so that after the end of June next our paper money will be exchangeable against gold on demand. In 1876 and 1877 the monetary position in the U.S.A. was very similar to that which exists to-day in South Africa. The paper money (greenbacks) was nearly at a parity with gold, and the leading economists were urging the Government to resume specie payment, but a majority of the politicians were afraid, with the result that the return to gold was delayed until 1st January, 1879. General Walker in a lecture delivered in 1878 said, in reference to schemes for delaying the resumption of specie payments:—

"The hard experience of four years of prostrate industry and collapsed credit has brought the nation to the point where the market value and the legal rating of United States notes closely approach each other. The exhausted swimmer thus borne in towards the shore may again be carried out to sea with a turn of the tide. A single manful effort would suffice to re-establish our national credit, and place industry on a sound basis. On the other hand, delay and evasion now may render vain all the suffering of the past four years. There has never been wanting for the achievement of specie payments more than the public virtue among the people strongly to desire it, the moderate intelligence among our 'rulers to choose the simple means that are pointed out by all experience, and the courage, in both people and rulers, to bear for a brief time the pain of the surgery and the cautery which alone can bring healing."

Samuel Evans.

22nd March, 1923.

This memorandum was published in the Johannesburg papers and in the Cape Times. Mr. Aiken and others also severely criticized the Currency and Banking Act Amendment Bill. Mr. Burton, speaking in the House of Assembly on 21st March, 1923, in reply to the debate on the second reading of the Currency and Banking Act Amendment Bill, said:—

"Then this talk, this idea, that this Bill came in a sort of way from the Government, and that the Board had been used as some sort of stalking horse—nothing could be more absolutely removed from the true facts. The whole of this Bill is the product of consideration and resolutions taken by the Board of Directors of the Reserve Bank, without the faintest intimation on the part of the Government on any one of the points in this measure. We did not know what they were going to recommend to us until we had their proposals. Indeed, I give the country this solemn undertaking that the Government has not had a single finger in the pie."

APPENDIX 10 (g).

The American Debt Settlement and the Depreciation of Gold. Mr. J. M. Keynes's Views.

Mr. Baldwin, the present Prime Minister of England, in the agreement which, as Chancellor of the Exchequer, he negotiated in January and February, 1923, for the settlement of the debt due by England to the United States (White Paper Cmd. 1912), secured an option to pay the debt in any bond of the United States issued or to be issued subsequent to 1917, or in United States gold coin, or in gold bullion. "That is to say," writes Mr. Keynes in The Nation of 4th August, 1923, "we shall get the full advantage of any future depreciation in the value of gold, whether by the discoveries of chemists or because of the demonetization of the metal or for any other reason. If the legal-tender dollar becomes depreciated in terms of gold, the option to pay in United States bonds becomes valuable. If the legal-tender dollar becomes appreciated in terms of gold (as, for example, by the United States Mint to gold in the interests of price stability), the option
to pay in gold bullion becomes valuable. Over a long course of
years one or other of these events is extremely likely to occur. In
effect we are entitled to pay in legal-tender dollars or in gold
bullion, whichever is the less valuable, and of the double option, I
believe myself that... the right to pay
in gold bullion is the one we
are likely to make use of." Mr. Keynes adds: "The cheaper gold is,
the less we have to pay, and vice versa."
The debt of England to the United States amounts to
$4,600,000,000, involving an annual payment for interest and
redemption of $161,000,000 up to 1933, and about $184,000,000 for
fifty years thereafter. To bring home the magnitude of this
burden, Mr. Keynes gives the following illustrations:—
"We shall be paying to the United States each year for sixty
years a sum equivalent to two-thirds of the cost of our Navy, nearly
equal to the State expenditure on education, more than the total
burden of our pre-war debt, more than the total profits of the
whole of our mercantile marine and the whole of our mines
together."
About half the visible gold supply of the world is in the United
States, with the result that prices and wages there are very high.
They would have gone very much higher than has been the case
had it not been for the conservative policy pursued by the Federal
Reserve Board in doing what has been described as sterilizing gold
and preventing the influx of the metal into the country having its
full effect on the general level of prices and on wages.
It is believed by financial and other authorities in New York
that "an influence much more powerful than chance is at work to
the end that all available supplies of gold in every part of the
earth may be gathered up and turned in the direction of the
United States," so as to depreciate as much as possible the com-
modity value of the dollar. (Economic World, New York, 25th
August, 1923.)
Under these circumstances it is not at all surprising that pro-
posals are being made with a view to—
(a) controlling or restricting the issue of gold currency in the
United States; or
(b) prohibiting the importation of gold into the United States,
as was done by Sweden during the war.
In a pamphlet on "The Stabilization of Gold: A Plan," Mr. Carl Snyder, Statistician to the Federal Reserve Board, New
York, refers to the gold standard as a fetish, and points out that
there is a redundant supply of gold in the world, and that the chief
fiscal problem of the nations is not how to conserve this gold but
how to impound it or otherwise prevent it from exercising further
inflation, and nowhere is this more acute than in the United States.
Mr. Snyder further proposes to practically cut the connexion
between the amount of gold in the United States and the volume
of its currency and credit, and to regulate the latter by index
numbers. That is, he proposes that the issue of dollar notes even
against gold should be controlled and restricted by the Federal
Reserve Banks.
I need not enlarge on the calamitous results for the gold mining
industry and for South Africa which would inevitably follow the
adoption by the United States of any one of the proposals
mentioned.
Few people in South Africa realize how insecure and precarious
the position as regards gold has been since the end of 1922, and
the danger involved in an uncertain and hesitating attitude on
this matter on the part of the Union Government. It must be
remembered that three of the ablest and most active exponents of
the monetary problem in England (Messrs. Keynes, Layton, and
Hawtrey) are advocates of systems of price stabilisation without
gold, or with gold controlled as proposed by the Genoa Conference
in April and May, 1922. Moreover, several of the Parliamentarians
and public men that matter in England, including three ex-
Chancellors of the Exchequer (Messrs. Baldwin and McKenna and
Sir Robert Horne) are also disposed to follow a policy which may
lead to the total or partial abandonment of the gold standard.
In the middle of this year (1924) two directors of the Bank of England (Sir Charles Addis and Sir Robert Kindersley) and the Chairman of the Westminster Bank (Dr. Leaf) advocated a policy of deflation with the object of restoring sterling to its pre-war parity with gold. Several influential voices were immediately raised against this proposal, including the Federation of British Industries.

Mr. J. M. Keynes, writing in The Nation of 19th July, 1924, stated: 'The Big Five,' led by the Midland Bank, are believed to have urged caution; the weekly Press—The Nation, the Spectator, the New Leader, and the New Statesman—weighed in with unanimous protests. It is probable that for the time being the deflationist movement is scotched... Those who subscribe to price stability as a deliberate policy are still in the minority, but recent weeks have shown what a weight of popular opinion, when it comes to practice, is thrown on their side.'

November, 1924.

* SAMUEL EVANS.

APPENDIX 10 (A).

THE 1920 HOUSE OF ASSEMBLY SELECT COMMITTEE ON EMBARGO ON EXPORT OF SPECIE AND THE LOSS OF GOLD BUGBEAR.

[Extract from an article by Professor E. Cannan in The Economic Journal (London) of December, 1920.]

"Having thoroughly confused the majority of the committee with the chimera of a balance-sheet which does not balance, although the items on each side add up to equal amounts, Mr. Strakosch proceeds to terrify them with two bugbears—the Indian peasant, who will insist on buying gold at an outrageous price, and the United States, which has 'lost' in nine months to March, 1920, 450 million dollars' worth of gold. Instead of congratulating South Africa on still having in the East a tolerably good customer for her principal product, now terribly depreciated in purchasing power owing to the misfortunes of Europe, and instead of congratulating the United States on finding customers for this mass of metal which she took in exchange for goods during the war, which so far had done nothing for her except create disturbance by raising prices, and the export of which was likely to bring her prices down (as indeed it has), Mr. Strakosch argued that the United States would be obliged to restore her war-time embargo on the export of gold, and then, if South Africa was on a gold standard, allowing the export of specie, the all-devouring peasant would soon draw away all the gold coin from her. Of course, if South Africa really were on a gold standard, nothing of the kind would happen, because the sovereigns in South Africa would then be no cheaper than 113 grains of gold produced from the mines, and there could be no reason for the Indian peasant to make a dead set at the South African currency.

"Confused by all this, the committee never seriously considered the real practical issue which should have been put before them—whether it would be best for South Africa to keep her currency level with gold or level with the British paper pound. There are many arguments for both courses, and this is not the place to attempt to decide between them. What the committee—or at least the great majority of the committee—since the small Labour element fought manfully for sound doctrine, decided to do was to recommend the continuance of the embargo, the discontinuance of the convertibility of paper into coin, and the creation of a new central bank of issue with power to issue unlimited bank-notes against 40 per cent. of gold. These proposals remove the two checks—'leakage' of coin by smuggling and the fear of a removal of the embargo—which restrained the banks in the manufacture of currency. On their face they substitute nothing except the requirement of 40 per cent. gold cover. Now, whatever may be thought of
the usefulness of such a requirement when the paper is convertible, it is clear that when the paper is inconvertible and expected to remain so it will only stop the manufacture of paper pounds when their value is so reduced by over-issue that it will take nearly a hundred of them to buy gold enough to make forty sovereigns."

APPENDIX 11.

RESUMPTION OF GOLD PAYMENTS.

MR. A. AIKEN’S REPLIES TO QUESTIONNAIRE.

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

Yes. At present there is no basis for South African currency except that the prevailing feeling is to keep it on approximate parity with sterling. This feeling seems to be shared by the banks as well as the general public, and only internal difficulties connected with exchange operations have forced the banks to make a rate of exchange adverse to sterling. As things are at present South African currency has no independent basis which would automatically bring about a rectification of prices and credit changes, but the currency is at the mercy of the Government and politicians. In my opinion this is dangerous. I feel strongly that only a currency which consists of gold or which is immediately convertible into gold at par is sound. Most people agree that it is necessary to get back to such sound currency, and the only question is when. It is better, in my view, to make the necessary adjustment as soon as possible. Delay does not obviate the need of adjustment but it does keep alive distrust and hostility between conflicting interests, which should be ended.

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

Yes. There is no appearance of any decided policy on the part of England to get back to the gold standard at a reasonably early date. The value of sterling in gold has varied considerably in the past eighteen months and may easily vary considerably again. With the existing absence of any definite policy on the part of South Africa our currency will, as things have gone in the past, continue to follow sterling, unless we take definite steps to rehabilitate our own currency.

3. 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?

Had sterling and South African currency shown a greater depreciation as compared with gold than they do, I should certainly have advocated that the return should be in stages, but South African currency is so near to gold—it is only about 1 per cent. less—that I think we are in a position to get back in one step and I therefore do not to-day recommend a gradual return.

4. 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?

The effect on prices would, in my opinion, be a tendency towards a slight fall. The effect on wages would show more in the direction of preventing a rise in, for instance, the gold mining
industry, and in others it ought to result in bringing about adjustments of the wage rates in other employments so as to make them more comparable with the rates prevailing in competitive industries like gold mining and agriculture. At present there is a good deal of dissatisfaction on account of unconforming rates of wages, and wages are therefore unsteady. In gold mining the rates have been brought much nearer to the pre-war figures than in other industries. In such of the latter as can pass on their costs the rates are still high. This is likewise the case in public and corporate employments, or what are termed "sheltered" occupations. The unconformity is serious when a ticket puncher on the municipal tramways can get £7 a week, which is more than highly skilled artisans on the mines receive. Time is needed, but public opinion will ultimately and probably gradually force down rates of wages which are too high in comparison with rates prevailing in competitive industries provided that the public feel that prices are as low or as high as world conditions will allow.

With regard to (c), (d), and (e). I see no reason to anticipate any dislocation as the result of South Africa returning to the gold basis.

With regard to (f), however, the Union Government is still borrowing money in the English market. If it continues to do so and now cover its expenditure by its revenue it is possible that the Government will have to face whatever loss on exchange may result on the transfer of loans subscribed in England to this side.

However, in so far as the return to gold will make South African currency more valuable, to that extent it will diminish the ability of the community to pay taxes; but I consider that the Government expenditure is altogether excessive for the ability of the country to meet it and if it is brought home to the Government that the ability to bear taxation is limited, and that we are very near that limit, if we have not reached it without impairing our productive capacity, then I think the result will be a very good thing for the Union.

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?

The bankers and others say that in the first half of 1920 a considerable amount of capital left South Africa for England in order to take advantage of a temporary discount which ran up to about 8 per cent. on sterling here. I do not know to what extent this outflow of capital went. It is impossible to ascertain in figures. I think that debtors in South Africa who are able to do so might take advantage of a rate of exchange adverse to sterling in order to pay off their debt to creditors in England, but the rate would have to be at least 5 per cent. before it would operate to any extent. The immediate effect of a definite step by South Africa to return to the gold standard would, I think, be to attract capital for the reason that people in England, for instance, who were looking for investments in a sound money country, would prefer South Africa and hasten to take advantage of an exchange adverse to England before English currency itself reverted to gold.

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?

The rates of exchange would be closely approximate to the corresponding dollar exchange. It is manifest that if this were not the case speculators in exchange could buy or sell South African pounds in exchange for dollars to advantage, and this would mean either an import of gold or an export from South Africa which would immediately react on the exchange rate here.
8. If it could be assumed that Great Britain in the course of the next 12 months would resume a free gold basis, should South Africa take any present steps in contemplation of her simultaneously resuming a gold basis?

If there were any certainty that Great Britain would resume a free gold basis within such a short period as one year, I would not advise South Africa to take any steps at all. It is, however, the entire uncertainty of Great Britain’s policy and the hesitation which has marked the pronouncements and actions of her Government which makes it advisable for South Africa to act on her own.

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?

No special measures, in my opinion, are necessary. The flow of gold will correct any dangers automatically, and all that is required of either the Government or the bankers is to keep their own financial condition sound.

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

I do not see that anything would be required of the Reserve Bank beyond what it has been doing in the past.

APPENDIX 12.

STATEMENT PUT IN BY MR. F. C. STUTTROCK.

THE GOLD STANDARD.

Introduction.

A stable currency is essential to commerce. Nothing makes commerce so difficult as a medium of exchange which fluctuates in value.

A currency backed by gold and redeemable in gold existed before the war. As our pre-war experience of a gold basis currency was so satisfactory, and our experience of a controlled currency since then has been so much the reverse, I see no good reason for not reverting to gold as soon as is conveniently possible.

The Minister of Finance at the end of 1920 stated that the Government endorsed the view of commercial congress that as early a return to the gold standard as practicable was desirable. Commerce has not changed its opinion. This view was supported by Mr. Stuttaford, President at Bloemfontein Congress, and Mr. Harraway, President at Harrismith, and has received the repeated endorsement of the commercial community of South Africa at various times. I believe commercial opinion is definitely against any manipulation of the currency with a view to making profit out of it, even though such profit be on account of the State. Commercial opinion is also inclined to the view that, other things being equal, South Africa, as the largest gold producer, should set an example to the rest of the world in the use of gold. To do otherwise is, in my opinion, suicidal.

THE GOLD STANDARD.

Replies to Questionnaire:

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

I am in favour of South Africa returning to a gold basis as soon as conveniently possible. My decision in this respect must be determined by the amount of inconvenience that would be caused by any restrictions that it might be necessary to impose. I do not know, however, in which direction it may be necessary to impose such restrictions, and it will be an advantage if the necessity for imposing them does not occur.
2. Do you think that South Africa should take steps independently of Great Britain to return to the gold standard?

It is really a matter of the balance of convenience.

If Great Britain is determined to return to gold at as early a date as possible, and if the possibility is that this date would not be too far distant, then we think we should act along with Great Britain. If, on the other hand, the case is otherwise with Great Britain, then we should have to consider our attitude. The close economic relationship that exists between this country and Great Britain makes it desirable that the currencies of the two countries should be co-related; but whilst admitting this, I am not prepared to say that we should not act independently if Great Britain does not propose to get back to gold with expedition.

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 depreciations?

I definitely think it desirable that our currency should be placed in the position of avoiding depreciation from any cause. This line of policy should be an economic axiom in a self-governing dominion.

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?

I am in favour of South Africa returning to the gold standard. The policy proposed in England in the year 1820 might be adopted here if it is necessary. In the present state of our currency it is probably not required, and a definite return could be made on the due date.

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?

I believe the effect would be as follows:

(a) On prices: Prices would tend downwards and would become more stable.
(b) On wages: As the real value would increase, the general level of wages would tend downwards, and greater stability would also result.
(c) On production: Stable currency encourages the flow of capital and would stimulate production.
(d) and (e) Export and import: It is difficult to express an opinion on this subject. It would appear upon a superficial examination that the tendency will be for exchange to rise against the exporter in favour of the importer. On the other hand, there are many factors which would encourage an opposite movement. Investment in South Africa would be encouraged. I am unable to forecast what will actually happen, and in a question where so much uncertainty does and must exist I believe it to be wise that we, at any rate, build upon a stable currency. The ultimate advantage must rest in having a stable and valuable exchange medium. On the other hand, if the Commission believe that there is to be any serious dislocation in the export or import trade as the result of South Africa returning to the gold standard, then it would appear that the balance of convenience rests in deferring this step until such dislocation can be avoided.

(f) The Union Government's finances: No reply.
9. If South Africa should return to the gold basis 30th June, 1925, 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?

I believe this question could best be answered by bankers. Experience, I believe, proves that capital is attracted to a country possessing a stable currency. Probably this effect is greater to-day than it has ever been, because stable currencies are hard to find.

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?

No reply.

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?

On this assumption South Africa should act along with Great Britain. The return to gold would need to be postponed for that period.

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?

I do not think any special measures need be taken in the present position of our currency.

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

I do not know of any functions that the Reserve Bank need undertake in this connexion.

APPENDIX 13.

The Transvaal Agricultural Union, representing 316 affiliated bodies of organized farmers in the Transvaal Province, presents the following statement for your consideration:

The Agricultural Union, representing the organized farmers and primary producers, in 1920 made representations to the Select Committee of the House of Parliament on the question of currency and pointed out:

"That there was no need for South Africa to depart from the gold standard. That the instability of currency thereby created would deprive the country of the possibility of obtaining favourable credit, and that the lack of favourable credit prevents the stabilization of its currency. That if we retained our gold currency there would be great agricultural and industrial development; we would be in the happy position of being able to purchase £137. 10s. worth of machinery for every 100 sovereigns instead of £75 worth of machinery for 100 paper pounds. That it is recognized that currency and exchange disorders hamper trade. It is the prime factor amongst those causing the breakdown of the economic and social system, and the rise in prices can be attributed to the use made by the Government of currency and bank credits for financing expenditure."

Our warnings came true.

Since that date we have been living upon paper currency, and the open market price of the products of this nation is not permitted to be realized by its citizens, and the country headed straightway to depression, as is indicated by the enormous increase in insolvencies in the agricultural and commercial communities.
The currency of the country was upset, not as stated by some people by an avalanche of war, but by an avalanche of paper pounds unsecured by gold, authorized by the late Government and issued by the banks.

That hurled us from our secure currency position and a position of prosperity to the present disastrous position of depression, out of work, starvation, low prices for farm produce, and high prices for the farmer's requirements.

But the farmer could not afford to increase his permanent investment in high-priced tools to be paid for with low-priced produce, beef, etc.

When farm produce was realizing high prices farmers could afford to buy farm machinery, but with the price of their produce reduced by one-half and farm machinery up 100 per cent., the farmers are told these are after-war conditions and they should expect them, but they trace the cause to the date when the gold standard for currency was thrown overboard.

They cannot continue paying high prices and receive small prices for their produce.

In the pre-war days the farmer could pay for a £17. 10s. plough out of his profits. What is the position to-day? The cost of production has greatly advanced; on the other hand, the market price of farm produce has fallen, and the cost of the same plough has soared up to £35.

There is no practical solution of the exchange and currency troubles of the world other than the restoration of our gold standard, and that is a prerequisite to a return of prosperity.

It is self-evident to every one that the persistent efforts made by civilized Governments to force producers and consumers to buy and sell without a gold standard have been a disastrous failure. The sooner this country returns to its natural currency as the greatest gold-producing country in the world and get rid of our inconvertible paper currency, the sooner will we achieve that great pre-eminence amongst nations and abundant prosperity which, by the inconvertible paper currency, has up to the present been denied us.

We have the extraordinary position of a mint at Pretoria erected at enormous cost and refraining from minting a single sovereign, and turning out spurious silver and copper coins backed by inconvertible paper of uncertain value instead of gold.

Buying and selling are exchanges made through a medium called money.

We produce primary products, but what we need at the moment are ploughs, agricultural machinery, boots, clothing, furniture, etc.; this makes a three-cornered exchange by exchanging our produce for money and then exchanging the money for ploughs, agricultural machinery, boots, clothing, furniture, etc.

The basis of wealth is production, and wealth means greater production.

When production exceeds that required for one's own use, it is then available for exchanging for our general necessities, and to measure its value it can only be done in money.

A yard is for ever a yard and a pint-pot for ever a pint-pot, but unfortunately a sovereign is not always a sovereign, and bitter experience has revealed to us that a pound fluctuates violently in value down to waste-paper value.

A pint-pot will measure water, coffee, tea, beer, champagne, or milk, and similarly a yard will measure silk, satin, or cotton with equal indifference.

A pint-pot is a measure of drinkables, but it is not itself drinkable, whereas a sovereign is a measure of values and is itself valuable—it is, so to speak, an interested party.

A scarcity of pints-pots does not affect the quantity of fluid which it is the function of pint-pots to measure, but a scarcity of sovereigns does alter the value of commodities which it is the function of sovereigns to measure. That is, there is a difference between the measure of values and other measures such as weight, capacity, and length.
The latter are stable, whereas the measure of value is unstable, and is there any possibility of rendering the measure of value stable?

The economic value of a thing must needs be expressed in terms of something different from itself.

Value economically is exchangeable value, and must express the relationship between two or more things.

At one time twenty apples may be worth and exchanged for twenty oranges; at another time, owing to a plethora of apples, it may be necessary to offer forty apples for twenty oranges. It is therefore obvious that the money value of apples may have gone down, whereas the money value of oranges may have remained unchanged.

Oranges and apples vary in value, so also does money, and all of them vary in value according to the quantity in existence.

During war, Governments turned out large quantities of paper money, and the whole basis of exchange became upset by what is called managed currency. There are two standards—managed currency and gold standard.

Managed currency means that some body of men are to be entrusted with the delicate operation of inflation and deflation in order to influence prices.

It is utterly impossible to find such an impartial body of men to be entrusted with such responsibilities.

Gold standard is not by any means an ideal measure of value, but as every country in the world is desirous of having gold, we should be wanting in common sense if, having the most productive goldfields in the world, we did not do our best to supply it and did not do our best to increase and expand the demand for gold by returning to the gold standard; and when we get back to gold standard, one of our great needs—stability of measure of value as far as is humanly possible—will have been secured.

Before very long gold will be restored as the international currency, as it gives that stability of measure of value to the extent of which it seems possible at present for human skill and competence to secure.

There has been a lot of inflation in England, although small compared with that in Germany. If it has risen 100 per cent. above previous normal it means that the pound sterling or paper pound in England can buy only half what it used to buy; our conditions vary from those in England.

When the movement of gold between two countries is stopped, there is no equalizing factor in the prices of commodities.

Exchanges between countries using an effective gold standard depend entirely on the amount of gold contained in their standard coins.

When gold was allowed to move freely, the United States dollar was at par with the British pound sterling.

If production is largely increased in South Africa and the cost of living reduced, and there is no similar progress in Great Britain, the South African pound has a greater purchasing power than the pound sterling, and the South African pound could not fail to be quoted at a considerable premium.

To find the real price of any article, you require a competitive market.

What is the use of our exports unless we are buying our imports with them. The plain fact is that exports should pay for imports.

Trade is an exchange of commodities through the medium of money, and money is the measure of value; we must aim at stability, in the measure. Therefore the greatest stability is the gold standard, and we urge, get back to gold not later than the 30th June next.

It has been stated that the sovereigns, if brought into circulation, will drain out of the country. There is no inducement to
drain sovereigns of the value of 22s. in South Africa to, say, New
York or elsewhere at a value of 22s., plus exportation expenses.
The inducement only arises when, by an embargo on gold currency,
we reduce the value of sovereigns in South Africa to 17s. 6d. while
they are worth 22s. in New York or elsewhere.

We are, Gentlemen,

Yours faithfully,

E. W. HUNN, Major
(President),
Transvaal Agricultural Union.

D. ALLAN
(Secretary),
Transvaal Agricultural Union.

Pretoria, 17th December, 1924.

APPENDIX 14.

STATEMENT SUBMITTED BY MR. J. P. GIBSON.

Resumption of Gold Payments by the Union.

As arranged when giving evidence before your Commission in
Pretoria, I now submit a statement of my views on the question of
the resumption of the gold standard by the Union of South Africa.
This statement is complementary to the verbal evidence given by
me, and as such I desire it to be embodied in any printed report of
evidence taken.

It was my intention to deal with your questionnaire seriatim,
but I find that to do so would involve repetition and overlapping,
and I am therefore dealing with the questions as a whole.

I do not favour the return of South Africa to the gold standard
at 30th June next, either with or without restrictions; a return
with restrictions could hardly be regarded as a complete resumption
of the gold standard.

At the present time the British pound relative to gold is
depreciated to the extent of approximately 3½ per cent.

On the basis of the mean of the buying and selling rates of
exchange on London the South African pound is now 3 1/16 per
cent. more valuable than the British pound, and is therefore about
7/16 of 1 per cent. below parity with gold.

The difference in value between the British and South African
pounds is marked by the rate of exchange which varies according
to supply and demand, thus reflecting the fluctuations in the
movements of visible and invisible trade.

This position is not sufficiently understood, as is evidenced by
such complaints as that the buying rates of exchange are unduly
onerous, and that in the event of British sterling going to parity
with gold the banks would derive some advantage from balances
in London resulting from exchange operations.

The transfer on an important scale of South African funds
to London would be a clear indication that rates of exchange had
not been effective in bringing about the degree of equilibrium
necessary between purchases and sales, and such a position in
itself would be proof that buying rates had been unduly favourable.

In the event of the British pound going to gold parity, the
Union banks would benefit on such excess exchange balances as
may have accrued to London, but to the extent only of the average
difference in the exchange value of the British and South African
pounds from the dates the funds were transferred to the other side.
In the case, say, of American balances in London, the gain
would be represented by the whole appreciation in the value of British
sterling from the dates the funds were laid down, but a New
York seller of exchange would not regard it as a grievance that
the purchaser might obtain some benefit from appreciation if a portion of the funds remained in London.

In view of the uncertainty as to what the position may be at 30th June next when the inconvertibility period of gold certificates expires, the banks have been anxious to prevent any accumulations of Union funds in London.

The South African banks week by week meet all demands made upon them by clients for the purchase and sale of exchange.

An impression is held, even in well-informed quarters, that the banks can manipulate the exchange position for their own benefit. This impression is groundless, as any one familiar with exchange knows. The Union banks would incur grave risks were they to attempt to operate the great volume of South African exchange business at rates fixed arbitrarily without reference to the trade position.

The banks look to getting their remuneration out of the margin between the buying and selling rates of exchange.

The margin between the purchase and sale of telegraphic transfers is \( \frac{1}{2} \) of 1 per cent., and for certain business the margin is \( \frac{1}{4} \) less; that is, \( \frac{1}{4} \) of 1 per cent.

These margins have been criticized as unduly wide, and there would be ground for this criticism if the banks confined their operations to the purchase and sale of equal amounts of exchange business, as is the practice of dealers in exchange.

In South Africa, however, the banks take the whole of the exchange business offered them by clients, and in the case of each of the larger banks the exchange operations of a single mail may result in the transfer of funds from or to London or South Africa, as the case may be, to the extent of half a million pounds and sometimes more. With such wide variations in the amounts of exchange bought and sold, it is impossible to obtain even an approximate weekly balance, and the best that can be aimed at is reasonable equilibrium in purchases and sales of exchange over periods.

This may involve the repatriation of funds at rates less favourable to the banks than those at which laid down, thus not only cutting into the margin of profit but at times causing loss. It is, of course, the case that at other times the movements in exchange favour the banks, but on the whole the fluctuations in volume, seasonal and other, are of such magnitude as to make excess balances unavoidable if the exchange requirements of the country are to be promptly met, and the prompt meeting of all exchange requirements means that the margin between the buying and selling rates is not always to be depended upon as profit.

In Australia the banks have not had to keep continually in view the possibility of a return to the gold standard independently of Britain, but, notwithstanding this, the buying rates of exchange there are at the same level as in South Africa, while the margin between purchases and sales is wider.

Not only is this so, but the position in Australia has become congested to the extent that exchange is not a free market, and there has been the greatest difficulty in arranging its negotiation, even as regards exchange drawn against Australian exports under established letters of credit.

The Union banks would be prepared to work on a smaller margin between buying and selling rates if the weekly operations could be conducted on the basis of restricting purchases to the amount of exchange sold, or, alternatively, of restricting sales to the amount of exchange bought.

The amount of exchange business transacted outside the banks is considerable, but outside channels could not absorb the large amounts of exchange that would be shut out week by week if the banks were to work on a covered position.

On the basis of covering all operations, the exchange position would not be improved for the public, as fluctuations in rates would be wider than under the present system of marketing exchange, and inability to place the exchange necessary for the requirements of agriculture, industry, and trade would have a bad effect.
It is natural that exporters and importers should both desire rates of exchange to be favourable to their interests, but neither they nor the banks can get away from the position that the level of rates is governed by the supply of and demand for exchange arising out of the trade position—visible and invisible—and it would be well if this were better understood.

The position of exporters has been adversely affected by Government borrowings in London, which have had an influence on the level of rates of exchange, and through rates on the value of South African currency.

The banks were recently asked by a group of large exporters for a statement of their London balances over a period of two years, but could not accede to the request that they should submit their domestic affairs to outside inspection and interference. Your Commission, for purposes of this inquiry, have asked for the same information, and as you think it may be of some use or assistance to you in the consideration of the important questions now engaging your attention, I have pleasure, on reconsideration, in giving a statement of our London balances in monthly averages for the past two years. These figures reflect the massed result of the operations of the bank’s branches and agencies in fourteen different states, territories, and countries, and as such are not of the same value for comparative or other purposes as figures pertaining solely to the Union would be. I suggest, therefore, that the quarterly published statements of the banks, which reflect the balances due to and by head offices and branches outside the Union, would afford more reliable data.

With Union currency about 7/16 of 1 per cent. below the dollar, and the export season for wool in full swing, the attainment of parity with gold would not at the moment present much difficulty, but what the position will be at 30th June next it is impossible to say.

If Great Britain maintains her currency close to parity with gold or takes the step of resuming the gold standard, South Africa can do the same, but South Africa, if resuming specie payments independently of Great Britain, would not be able to maintain the gold standard in the event of British sterling receding in value.

It has been necessary for South Africa, as a young, developing country, to borrow largely; the borrowed capital is for the most part British, and it is in sterling that Union values are measured. In 1920, under the stimulus of rates of exchange, not, however, exceeding 7¼ per cent. discount for the sale of telegraphic transfers on London, money left the country on a large scale. It is estimated that over a period of months the amount withdrawn was not less than £25,000,000. Of these funds a portion came back in the form of goods and stock exchange securities on which substantial losses were incurred. A further portion came back in the form of money retransferred, but a very large portion represented capital permanently withdrawn for the want of which South Africa suffered in the years immediately following.

The export of specie from the Union was prohibited in 1920, but gold coin was extensively smuggled out of the country, and at this time when specie reserves were being seriously and illicitly depleted, an agitation was proceeding for the resumption of the gold standard.

It was in these circumstances that rates of exchange for the sale of transfers on London moved to a discount of 7½ per cent., at which rate moneys flooded out of the country. The average premium on gold over the period in question as shown by the sterling-dollar rate was about 33½ per cent. Assuming that South Africa resumed the gold standard at 30th June next, the position, in the event of the British pound sterling receding materially in its relationship to gold, would again be an extensive efflux of capital from this country.

There is no longer any bar on the export of gold coin, and if the depreciation of British sterling reached even a moderate discount, the specie reserves of the country could only be retained if rates of exchange remained at a level sufficient to protect them.
The ability of South Africa to so maintain her rates would, however, depend on a favourable trade position, but the trade balance could not be otherwise than seriously adverse, as there would be no additional exports to set against an extensive exodus of capital.

The banks, in the absence of counter-balancing purchases of exchange, could not continue to sell on London to anything like the extent required, and the outflow of capital would have to take the form of specie shipments, denuding the country of its gold reserves and involving it in serious loss of credit.

If the banks were to be called on extensively by depositors for the withdrawal of balances for purposes of gold shipments, they, in turn, to meet the demands on them, would have to call on debtors for the payment of advances. In such a position a grave crisis would be inevitable, and the premature resumption of the gold standard could not be maintained.

It may be argued that the resumption of specie payments in the Union would inspire confidence to the extent that depositors and investors would not wish to withdraw their funds from this country, but so long as the transferor or depositor has confidence in the currency of Great Britain and believes that British sterling will sooner or later attain gold parity, the inducement of even a moderate premium would be sufficient to bring about the position above referred to, as has been proved by experience.

In all the circumstances, therefore, and in view of the important and far-reaching nature of the issues, South Africa should not take any steps to return to the gold standard independently of Great Britain.

Regarding the question as to whether South Africa should do anything to protect her currency from following the British pound in possible future depreciation, I am of opinion that the stage has been reached where it is not necessary to do so.

In February of 1923 the sterling-dollar rate touched $4.72, equal to a sterling depreciation of 3 per cent., but from that point the British pound slipped back, and it is only now that it is again approaching the $4.72 mark.

The general political and economic situation, however, has vastly improved during the past year, and cannot be compared with that of February, 1923. Conditions in Germany as a result of the acceptance and initiation of the Dawes Scheme, and the stabilization of the new currency, are sound and more satisfactory basis. In other continental countries also, economic restoration is proceeding, national budgets are being brought under control, and stability given to currencies. Under these much improved world conditions the danger of any serious recrudescence of inflation is slight, and in all the circumstances protective measures against possible future depreciation of the British pound appear unnecessary.

Dealing briefly with other points in your questionnaire, I would not favour South Africa adopting the policy of a gradual return to the gold standard, such as that provided for in England in 1820. At that time England, although exhausted by war, was the leading financial nation, and as it proved her position was such as to enable her to anticipate by two years the final stage for the resumption of cash payments. South Africa in her financial and economic position would find the return to the gold standard by stages difficult unless favoured by the external economic position. If the conditions externally were distinctly unfavourable, South Africa would find it just as impossible to maintain the levels of the stages reached as the gold standard itself.

The effect on prices, wages, production, export and import trade, and the Union Government's finances, in the event of South Africa returning to the gold standard independently of Great Britain, would depend on the value of Union currency at the time specie payments were resumed.

If the South African pound at the time of resumption were at or very close to parity with gold there would be little disorganization, but then it would come later when it was found that the gold standard could not be maintained.
If Union currency were depreciated to the extent of, say, 10 per cent., the immediate raising of its value to gold parity by a return to the gold standard would involve deflation to the same extent.

An immediate and arbitrary increase in the value of currency would make a fall in the level of prices certain, entailing loss on all existing stocks of commodities. To produce at the new level of prices all items entering into the cost of production, including wages, would have to come down, and all exports would be placed under the handicap of a 10 per cent. rate. The disorganisation following would dislocate trade and reduce production, with consequent unemployment. The increased value of the currency should stimulate imports, but increased imports at a time when the buying capacity of the public had been reduced at least temporarily would not be helpful. The higher value of money would increase the weight of all debts and add to the incidence of taxation, but if the gold standard could be maintained, adjustment to the new levels would come in time.

As to whether if it could be assumed that Great Britain in the course of the next twelve months would resume a free gold basis, South Africa should take any steps in contemplation of simultaneously resuming a gold basis, it would be unnecessary, as in that event South Africa would also be able to resume the gold standard.

I do not see what steps the Reserve Bank could take or what function it could perform that would serve any useful purpose in the protection of the country and position generally should South Africa return to the gold standard at 30th June next independently of Great Britain.

It is to the interest of South Africa as the largest gold-producing country that there should be a general resumption of the gold standard, and if it were possible for South Africa to restore a free gold basis without waiting for England I would recommend that this should be done.

The official policy of England is to restore her currency to parity with gold, and British sterling has reached the position where it is reasonable to hope that the small percentage of depreciation remaining can be wiped out without having to resort to deflationary measures.

The upward movement in sterling has been assisted by the lowering in New York of the rediscount rate of the Federal Reserve Bank to 3 per cent., which affects the sterling position in much the same way as an increase in the Bank of England rate would do.

The value of gold to-day is the price of the dollar, but it is to the interests of the United States to see gold re-established as an international standard, and co-operation between the two countries would afford the best means of bringing this about; with close co-operation the resumption of specie payments by England would be brought well within sight, without such co-operation it would not be wise, even for England, to restore the gold standard until she had fully demonstrated her ability over a period and under adverse as well as favourable conditions to maintain a free gold basis.

It may be taken, however, that the main interests of both countries lie in the return of the principal trading nations to a common gold standard, and the resumption by England would make it possible for the sterling dominions to resume, and at the same time make it easier for other countries to return to a free gold basis.

In all the circumstances it would be a rash experiment for South Africa to attempt to return to the gold standard independently of Great Britain.

Our currency difficulties are likely to be solved within a reasonable time by the appreciation of British sterling to parity with gold, and the only wise and safe policy is to wait.

When I gave evidence before your Commission reference was made to the South African rates of interest and to the agitation
now proceeding for greater credit facilities through the establish­
ment of a State bank or by widening the activities of the South
African Reserve Bank in competition with the commercial banks.

As stated to you, I hesitate to say anything that may be
regarded as criticism of the Reserve Bank, and these remarks
are intended to deal solely with the position from the commercial
bank standpoint.

The cry is not so much for lower rates as for more and more
credit, and the same cry has been voiced even more loudly in
other countries, including the United States.

South Africa has recovered very slowly from a surfeit of credit,
and any renewed undue extension of credit would be against the
interests of the country.

There are ample banking funds in South Africa which the
banks are anxious to employ, and which it would be to their
advantage to employ. The trouble, therefore, is not the dearth of
money but the dearth of suitable business.

From drought and other causes farmers have suffered severely
in recent years, and are finding it difficult to finance between
seasons and for such long credit as is required for development
and other purposes. In their case I would not say that the cry
for additional credit is altogether unjustified, and, as has been
done elsewhere, ways and means might be considered of providing
in suitable cases such facilities as do not fall within the category
of ordinary banking business.

Interest rates in South Africa compare favourably with those
of other countries at a similar stage of development. While the
number of banks is few, deposits and advances are keenly competed
for by the numerous trust and other companies and by attorneys
and others throughout the country. The basis of rates, therefore,
is competitive.

The return by way of dividend, including bonus, where any, on
the combined paid-up capital and reserves of the South African
banks was approximately 6 per cent, for the year 1921, 5½ per cent.
for 1922, and 4½ per cent. for 1923, which as an average return on
funds employed in South Africa is very low.

The placing of the South African Reserve Bank in competition
with its member banks would be destructive of the purposes for
which the Reserve Bank was established.

There can be little object in establishing a reserve bank if
the reserves are to be used in competition with the other banks
instead of being conserved against times of stress when the Reserve
Bank would be called upon to extend credit liberally, which it could
not do if its resources had been utilized in competition.

The ability of the Reserve Bank to quote lower rates than its
member banks is no proof that the rates of its member banks are
unduly high, since with the free right of note issue and the
statutory reserve balances supplied by the member banks to the
Reserve Bank free of interest, the latter is in a position to quote
almost any rates and still show a profit.

In all the circumstances, therefore, competitive rates as
between a reserve bank and its member banks for general business
are out of the question.

As regards a State bank, I would only say that its establishment
would not increase the resources of the country, and it could not
meet the credit requirements of the country better than is now
being done, except by taking risks that a bank should not under­
take.

In some of these matters I appear to have gone outside the scope
of the inquiry, but I have done so in order to meet your require­
ments as indicated by the questions asked when giving evidence.

Since the foregoing was written the British pound has further
appreciated, and is now only a little over 2 per cent. below parity.
with gold.

J. P. Gibson.

Capetown.
Monthly Average of London Balances.

1923.
January ................. £6,353,000
February .................... 5,228,000
March ....................... 6,886,000
April ................... 5,504,000
May .................... 5,344,000
June ..................... 4,815,000
July .................... 4,930,000
August ................. 4,730,000
September ............. 4,697,000
October .............. 4,585,000
November ........ 5,096,000
December .......... 6,608,000

1924.
January ................. £7,834,000
February .................... 8,084,000
March ....................... 8,199,000
April ................... 7,928,000
May .................... 8,211,000
June ..................... 7,875,000
July .................... 7,089,000
August ................. 6,711,000
September ............. 5,905,000
October .............. 5,587,000
November ........ 5,904,000

APPENDIX 15.

Answers to Questionnaire Submitted by Mr. W. H. Clegg.

1. No.
2. I think it would be advisable for South Africa to come to a decision not to follow any future decline in sterling beyond a certain point—say, below 4.40 to the £1, or practically a 10 per cent. depreciation.
3. — 
4. I think the scheme outlined in 2 is preferable. So long as Great Britain has not reverted to gold, it appears that it would be inadvisable to pledge the country to gold payments. The same objection would not apply to a policy of maintaining the South African pound as near gold parity as possible.
5. (a) At the present time the South African pound is practically at parity with gold, and a return to the gold standard would not reduce prices. The practical question at the present moment is, whether if South Africa went on to the gold standard independently of Great Britain, and sterling declined in gold value, prices in South Africa would remain stable or follow the upward trend of prices in Great Britain. I have good ground for thinking that the ordinary consumer gets little, if any, benefit from the external appreciation of South African currency. The reason for this is the lack of competition which the open-account system engenders. If this is true, it is difficult to concede that, even if South Africa was on a gold basis, fluctuations in the gold value of sterling would not influence South African prices.
I offer, as evidence that what I have been saying is correct, the figures on the accompanying statement, which show that the percentage fall of South African prices from their highest point has not been so great as that of British prices. Changes in customs duties and freights may account for part of the difference, but not, I think, for all.
(b), (c), (d), and (e). The answers to these questions depend upon the correctness of the answer to question (a). If it could be assumed that prices would remain stable with gold prices, and that
gold prices themselves would remain comparatively stable, stability in wages might be assumed; and with stable conditions in this country as against assumed unstable conditions elsewhere (say in Great Britain), it might reasonably be anticipated that production and export would be increased. On the other hand, production and export would languish if the South African pound failed to rise in internal purchasing power correspondingly with its rise in external value.

(f) If South Africa were to prove her ability to maintain a gold standard, I have no doubt the credit of the Union Government would improve. As to its general finances, their state would reflect the general condition of the country. It might be that the rate of interest in this country would have to be raised in order to attract or retain capital, and, if so, the Government also would have to pay more for its money.

6. I find it difficult to answer this question with any feeling of certainty, as it is very largely a psychological one. Advocates of the gold standard urge that any country which is wise enough to return to it before other countries will have as much capital offered as can possibly be required by investors who want to avoid loss of capital in fluctuating currencies. This is very likely true, but a condition precedent to such an inflow of capital must be a well-grounded confidence that a country which returns to the gold standard before the rest of the world can remain there. South Africa would have to prove her ability in this respect for at least a year or two before she derived the expected benefits. In the meantime, so long as capitalists in Great Britain have the firm conviction that sterling will shortly return to gold parity, there remains a certain risk that, for the sake of a quick profit, they might withdraw capital from South Africa. As there is little surplus capital here at present, I do not think there is much risk in this quarter. It seems to me, however, that there is a great risk of needed capital being withheld from this country, unless the two conditions, (a) of confidence in South Africa being able to maintain the gold standard, and (b) lack of confidence in Great Britain's early return to the gold standard, were in existence.

7. The effect would be that the exchange rate would stand, and would have to be maintained, at a point which made it no more advantageous to withdraw gold from this country than from any other gold centre.

8. If Great Britain, Holland, South Africa, and any other country whose currency is at or near gold parity were to agree within a certain period terminating not more than, say, twelve months hence to return to the gold standard, the best solution would, in my opinion, have been arrived at. The steps which South Africa should take in those circumstances would be similar to those mentioned in answer to questions 9 and 10.

9 and 10. It will be convenient to answer these two questions together.

If South Africa is to maintain gold payments she must be prepared always to pay in gold, and to give a draft in London at a rate which will represent the premium on gold over sterling. If she cannot do this, the coined gold which forms the basis of her banking system will begin to melt away.

South Africa produces gold in large quantities, and the banks can always buy gold to replace such losses, but to the extent to which gold is necessary for currency purposes, there is a shortage for payment of imports. Leakage from banking reserves, must, therefore, be prevented.

If a reversion to the gold standard is recommended, would not the intermediate step of adopting a gold exchange standard be advisable? In other words, would it not be desirable to enact that the Reserve Bank would be liable to pay its notes not in sovereigns but in gold bars of minimum weight of, say, 60 oz., and then only if reliable evidence that the gold was required for export were produced?
This would prevent leakage in small quantities, possibly amounting in the aggregate to a large sum. It would not, however, prevent large sums from being withdrawn for export if the banks were unable to maintain the South African £1 at gold parity, owing to the lack of sufficient sterling balances in times when imports were largely exceeding exports, or at other times when different circumstances might produce similar results. If the Reserve Bank were to open branches in the coast towns and in one or two of the bigger inland centres and also in London, it might be possible for it, in conjunction with internal credit control, to regulate the whole exchange position. It must not, however, be overlooked that, if it did business on a sufficiently large scale to enable it to dominate the exchanges, it would cut a large chunk off the volume of business at present done by other banks, who in these circumstances would find it difficult to employ their resources, swelled as they would be by the credit created by the discount operations of the Reserve Bank. Here again we come up against the difficulties of central banking, when there are only two banking points in the circumference of the circle. A central bank operating in a circle of several banks can, by taking a small amount of business from each, itself do a large business. But when only two banks besides itself are concerned, the balance of the planetary system is likely to be seriously disturbed if the mass of the planets is largely reduced by accretions to the central body. Nevertheless, it can hardly be gainsaid that the time must come sooner or later when the Reserve Bank must take a sufficient part in the general business of the country to make its weight felt in lowering or raising the bank rate. And I think that the improved prospects of the National Bank will allow of its making no further delay in endeavouring to carry out this part of its duties.

But for a full and determined intention to maintain the South African pound at par with gold, it seems to me that it would be necessary to have some arrangements with the Government whereby they could provide the Reserve Bank with sterling, when it could otherwise obtain no more of this currency, by borrowing on Treasury bills in London.

In this connexion I append a return showing the limitations imposed on the Reserve Bank in respect of their holding a portion of their reserves in other countries.

W. H. CLEGG.

24th December, 1924.

SOUTH AFRICAN PRICES AS COMPARED WITH BRITISH PRICES:
1920 AND 1923.

<table>
<thead>
<tr>
<th>Wholesale Prices</th>
<th>1920</th>
<th>1923</th>
<th>Reduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>United Kingdom (a)</td>
<td>3,055</td>
<td>1,582</td>
<td>48.2 per cent.</td>
</tr>
<tr>
<td>Union of South Africa— Import goods (b)</td>
<td>2,880</td>
<td>1,603</td>
<td>44.3</td>
</tr>
<tr>
<td>South Africa (goods) (b)</td>
<td>2,077</td>
<td>1,188</td>
<td>42.7</td>
</tr>
<tr>
<td>South Africa (all goods) (b)</td>
<td>2,305</td>
<td>1,306</td>
<td>43.3</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Retail Prices (Food)</th>
<th>1920</th>
<th>1923</th>
<th>Reduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>United Kingdom (c)</td>
<td>2,580</td>
<td>1,820</td>
<td>37.2 per cent.</td>
</tr>
<tr>
<td>Union of South Africa (b)</td>
<td>1,785</td>
<td>1,171</td>
<td>34.4</td>
</tr>
</tbody>
</table>

(a) Board of Trade figures.
(b) Census Department—Revised figures.
(c) Labour Gazette.
AMOUNT OF GOLD WHICH COULD BE HELD ABROAD, VIZ., ONE-FOURTH OF TOTAL RESERVE REQUIREMENTS (SECTION SEVENTEEN OF CURRENCY AND BANKING ACT), PLUS CAPITAL AND RESERVE OF £1,150,000.

1924: 13th December, £2,750,000
29th November, £2,800,000 (highest in year).
1923: 30th June, £2,950,000 (highest since bank started).

APPENDIX 16.

SUGGESTIONS FOR THE NECESSARY AMENDMENT OF THE CURRENCY AND BANKING ACT IN THE EVENT OF SOUTH AFRICA RETURNING TO THE GOLD STANDARD PRIOR TO GREAT BRITAIN OR ADOPTING A GOLD EXCHANGE STANDARD.

Section 13 (iii) (a)—Substitute for "and having a maturity not exceeding 90 days," "and having a usance not exceeding 120 days."

(Four months is a not unusual currency for South African internal trade bills, and many import and export bills are drawn at 120 days' sight. The word "usance" is suggested so that these last-named bills may not be ineligible.)

Section 13 (iv)—After "account" insert "for a period not exceeding three months," and delete in (a) "having not more than six months to run."

(Banks sometimes require short loans for a few days and it is very inconvenient to discount bills for this purpose, even if bills for the short currency required are forthcoming. So far as liquidity of assets is concerned limitation of the period of the loan seems for practical purposes sufficient. An alternative, possessing some advantages, would be to insert a clause in the Act similar to that passed in the United States on 7th September, 1916, authorizing short-term collateral loans to member banks.)

Section 13 (vi) (a)—Delete "not having more than six months to run."

(There is no market for short-time securities, and when the Reserve Bank desires to make an investment it has to buy a bill direct from the Treasury. It is not always desirable to give the Government fresh money, nor do the Government always desire to accept it simply because the Reserve Bank wants to invest some of its funds.)

Appendix the Federal Reserve Banks have power to buy and sell U.S. bonds and bills of any currency, and in this facility lies, I imagine, a considerable part of their power to control credit.

Due dates of the loans falling due the next few years show how difficult it is to invest in loans with a fixed short maturity:

1925. Union 4½ per cent. Loan, 1920-25 ... ... £3,000,000
1926. Natal 4 per cent. Debentures, 1926 ... 41,400
1927. Natal 4 per cent. Stock, 1927 ... ... 304,500
1932. Union 6 per cent. Stock, 1927-32 ... ... 9,000,000
1932. Union 6 per cent. Stock, 1927-32 ... ... 9,000,000

Section 13 (vi) (b)—If (a) is passed, (b) as it stands could be deleted and (c) would become (b).

Section 23 (ii)—Substitute "one-half" for "one-fourth."

(If the Reserve Bank is to take an active share in the exchange business it will be necessary for it to have more elasticity in the matter of permission to hold earmarked gold balances abroad. It might be necessary, for instance, in the event of unexpected withdrawal of gold at this end to turn any sterling balances we had in London into gold, and vice versa, in the event of our having large surplus reserves at this end. This we could easily do through the Bank of England.)
In view of the probability of the bank opening branches at various centres, it may be advisable to consider the wording of Section 16, which enacts that "the notes shall be redeemable on demand in gold specie or gold certificates at the office of issue." The Bank of England may not issue a note at a branch which is not payable at that branch and in London. Therefore, it is obliged to have a separate series of notes for each branch.

This procedure would be highly inconvenient to us.

The old South African Republic law was: "The bank-notes shall always be payable at sight in legal coin at the head offices, branches, and agencies in the South African Republic. The payment may, however, be postponed by the branch offices and agencies...until specie can have been received from the Head Office."

This law was made of no effect by section 15 (3) (b) of the Currency and Banking Act of 1920, but some such enactment would be necessary to protect the South African Reserve Bank if it opened branches.

A preferable method would perhaps be to give the branches of the South African Reserve Bank the option of paying notes in gold or by demand draft at par on the head office of the bank in Pretoria.

W. H. Clegg.

Pretoria, 31st December, 1924:

APPENDIX 17.

Mr. J. H. Cohen Stuart's Replies to Questionnaire.

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

If it can be, as I believe it may be, assumed, that a return to gold as the universal standard of value is now the definite object of all countries whose currencies have been disorganized through the war, then I hold that South Africa, considering the special circumstances of her case, will be justified in returning to the gold standard on the date named, and without any restrictions, provided certain measures are taken to lead up to that event, to smoothen its consequences and to protect its effectiveness.

The special circumstances referred to are—

(1) South Africa's active trade balance;
(2) the gold production, which constitutes a natural reserve for adjusting purposes;
(3) the unsound exchange position, resulting from the accumulation of bank funds in London, and the absence of an open and unrestricted exchange market;
(4) the desirability of giving the Reserve Bank an opportunity to develop into a central bank after the model of the great central banks of Europe, by assuming control of the money and exchange markets.

With regard to (1) and (2), although trade balances generally are deceptive owing to the invisible movements of international indebtedness, payments for services, etc., South Africa is in the peculiar position that its trade balance is chiefly dependent on the export of gold, which responds more quickly than any other commodity to the fluctuations of exchange. It is, of course, true that there are many other factors such as cost and supply of labour, taxation, etc., which greatly affect the production of gold, but these are not, like climatic conditions, beyond human control and can be more or less anticipated. It therefore becomes chiefly a matter of calculation, and the production and export can be more easily increased or curtailed at short notice than is the case with most other South African staple products. There is this further point in favour of gold as a means of adjusting South Africa's trade balance, that it can be realized on the spot and converted into currency to any required extent.
The accumulated bank balances in London largely dominate the present exchange position. They account for an alternate desire on the part of the banks to keep South African-London exchange as near parity as possible and to put up rates with a view to reduce the London balances. In the absence of a common gold standard, the corrective of gold points as in pre-war days does not exist, so that the great banks can manipulate the rates of exchange to suit their own convenience. It is said that these rates cannot but reflect the actual exchange position, which is to some extent proved by the fact that a considerable exchange business is being done outside the banks, though at rates closely following those of the banks. I believe, however, that this latter fact is also largely due to the somewhat primitive way in which exchange business is transacted in South Africa, which makes it difficult to have a free interchange of supply and demand.

The whole of this question is closely connected with the banking position in this country, which cannot, however, be dealt with here.

As for the part which I think the Reserve Bank might play in this and other respects, more will be said under question 10.

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

Although it would, of course, be desirable if Great Britain returned to gold simultaneously, I can see no valid reason why, if Great Britain is not yet ready for it, South Africa should wait. The resulting exchange fluctuations between South Africa and London will no doubt cause inconvenience, but, after all, such fluctuations can never be quite avoided and, with a free but properly organized exchange market and a central bank assisting as far as possible in the stabilization of foreign exchange rates, much could be done to alleviate difficulties in this respect.

The circumstances under which the gold basis was abandoned in South Africa should not be lost sight of. That step was decided upon with a view to protect the gold reserves of the commercial banks, which were endangered through the policy of these banks to keep South African exchange at a par with British sterling. At that time the currency of this country had, however, become inflated to an extent which would have made it very difficult to maintain the gold basis, more especially as the currency was in the hands of the commercial banks, who had to consider their heavy commitments in other directions, apart from their liability against their own notes.

To-day the position is very different. The currency is now controlled by the Reserve Bank and the note issue made subject to stringent rules and regulations, which preclude other than safe and fully secured business. The position of the commercial banks is also much improved: the long and painful process of deflation and liquidation has run its course and trade conditions generally have more or less resumed their normal aspect. At the rates ruling to-day the South African unit is very near gold parity, so that a formal return to gold could be effected without any great shocks. The danger of a gold drain hardly exists under present circumstances, as apart from any measures of protection that the Reserve Bank could undertake, the London bank balances would act as an additional safeguard.

Speaking generally, I consider the present time particularly favourable for a return to the gold standard in South Africa. If, by 30th June, British sterling should have attained gold parity, it will be better still, as in that case South Africa will be able to follow automatically. It is, however, impossible to say at this moment, what further course British sterling will follow, and as the recent recovery is said to be due largely to political and psychological factors, there always remains a possibility of renewed depreciation, in which case it would be regrettable for South Africa to have lost the present favourable opportunity.
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?

At rates ruling at present the price of gold expressed in South African money is within 3d. per ounce of its standard value. In England it was a matter, in 1820, of making up about 3s. 3d. per ounce. Unless by 30th June the price of gold in London should rise to a point which, after allowing for freight, insurance, and realization charges, would be more than, say, ½ per cent. over £3. 17s. 10d., I think that specie payments might be resumed as from that date at full value. If this measure were announced at least three months in advance, I believe exchange rates would adjust themselves to gold parity by the date named.

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

(a) On Prices?

Speaking generally, prices of imported goods or of goods manufactured locally for consumption in South Africa do not follow exchange fluctuations closely or appreciably, chiefly for the following reasons:—

(1) The high customs and dumping duties, added to the high overhead expenses of sale, distribution and transport, account for such a high inland price level, that slight fluctuations of the landed cost make little or no difference.

(2) The distance of South Africa from the world's great manufacturing centres, and the length of time required to order, ship, and distribute the goods.

(3) The "open account" system as between wholesale importer and storekeeper, and between storekeeper and customer, resulting in a slow turnover, big profits, and elimination of close calculations.

Of course a sudden, considerable, and continued fall of the English pound would be reflected in local prices sooner or later, though, on the other hand, it must be assumed that English prices would adjust themselves to such depreciation. Further, the Union Government possesses a very effective instrument to counteract such price movements in the shape of dumping duties, which are being applied to the produce of countries with depreciated currencies. It is clear, however, that this policy tends to maintain a high cost of living, which is not favourable to the primary producer and the exporter.

Prices of produce intended for export will no doubt follow prices on the world market, but to what extent these are affected by the gold value of the British pound is of course a debatable point.

(b) On Wages?

Wages would probably not be immediately affected, though they might follow the general trend of prices, as indicated above.

(c) On Production?

Production, in so far as it is intended for export to Great Britain, would no doubt be adversely affected by a continued divergence between the South African pound and British sterling, until such time as the inland price level and the general cost of living would have adjusted themselves to the higher value of the South African pound. Production for local consumption will adjust itself more easily to the changed conditions, if it is not protected by means of increased customs duties.

(d) Export Trade?

Seeing that the export trade is mainly financed by means of London credits established in British pounds, fluctuations in the London-South African exchange will be felt most acutely by exporters, who buy produce on limits expressed in British pounds, but have to pay for it in South African currency. They will no
doubt endeavour to guard themselves against the risk of exchange by contracting with the banks in advance before purchasing the produce. At present the banks do not favour such forward contracts, and it may be doubted if they will do so in future, unless an open exchange market could be established, serving the import as well as the export trade. I will return to this subject under question 10.

As for the gold industry, the loss of the premium is not likely to have any great effect on the production, except perhaps in the case of some of the low grade mines, which are working on a very narrow margin of profit. For the majority of the mines the premium represents a very small proportion of the profits made; besides, they seem to be making up for the anticipated loss of premium by effecting various economies in their working costs, as is illustrated by the figures published in The African World of 16th August and 15th November last.

(e) Import Trade.

As explained under (d), exchange fluctuations do not, as a rule, affect the import trade very much, so long as the rates do not fluctuate very considerably.

(f) The Union Government's Finances.

Having contracted large debts in British sterling, it can be only to the advantage of the Union Government if the South African pound appreciates and thus reduces the annual interest and redemption bill. Future loans, if intended for internal development, should, however, if possible, be contracted in a gold standard country, or in South African pounds—always assuming, of course, that British sterling fails to return to gold parity.

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?

As things are at present, I do not believe that there would be much movement of capital either way, at least not for the sake of a profit in exchange. Seeing that Great Britain has decided to return to gold as soon as possible, there might be some speculative remitting of money from South Africa to England to take advantage of a prospective rise, but I hardly think that such speculation would assume any considerable proportion.

On the other hand, the fact that South Africa has restored its gold basis may inspire confidence and attract capital from one class of investors, while to others it may appear desirable to wait until they can bring their capital out at par. It seems all a matter of personal feeling. Upon the whole, however, I think that the average capitalist has learned enough wisdom by now and, especially if he has had experience of unsuccessful gambling in various European exchanges, will have come to the conclusion that it is no use transferring capital to another country unless he is satisfied that the investment is intrinsically good, quite apart from any question of exchange.

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?

It all depends on the course of the London exchange and more particularly the London-New York exchange, from the day that the Union Government's intention would be announced, and the 30th June next. Speculation will, of course, be rife, but unless British sterling recedes from its present position, or the South African banks reduce their London rates, there seems very little scope indeed for speculation. Supposing, however, that the London-New York exchange were to drop considerably, then it
would be in the interest of the South African banks to raise the South African-London rate with a view to checking South African exports, and so to avoid a further swelling of their London balances. Simultaneously, this would stimulate imports into South Africa, more especially in view of the approaching return to a gold basis. The result would be, that the South African rate of exchange would not deviate much from gold parity than it does now, and, as a matter of fact, the natural tendency would be for that rate to approach parity more and more as the 30th June is drawing closer.

After parity will have been reached and the gold basis restored, the rate of exchange between South Africa and Great Britain, while upon the whole following the fluctuations of the London-New York exchange, might be to some extent influenced by the necessity to protect the specie reserves of the Union against a possible drain. This, however, is a point I will deal with under question 10.

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?

This question apparently presupposes that South Africa decides not to return to gold on 30th June next, independently of Great Britain. If so, the South African-London exchange would in all probability continue keeping close to parity, and in that case I should say no special steps will be required as South Africa would then automatically return to gold simultaneously with Great Britain.

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

It is evident that a country situated like South Africa cannot influence the movement of liquid capital and/or specie by means of a rate of discount, as is the policy of the great financial centres of the world. To make the movement of specie profitable, the direct or indirect rates of exchange between South Africa and the other country in question must leave a sufficient margin, apart from covering the cost of freight, insurance, commission, and interest. The protection of the Union's specie reserves and the maintenance of gold payments will, therefore, mainly be a question of maintaining South African exchange at such a point as will make it unprofitable for anyone to procure gold coin in South Africa for the express purpose of exporting. This is a task which should, in my opinion, be entrusted to the Reserve Bank, as set out under question 10.

There is, of course, still another kind of drain that may take place: an internal drain, caused by hoarding amongst the natives. It will be hardly possible to prevent anything of this kind, but it does not seem likely that this will affect the Union's specie reserves to any appreciable extent.

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

In the foregoing answers repeated reference has been made to the part the Reserve Bank might play in the future shaping of the Union's monetary and exchange policy.

Putting it briefly, I venture to suggest that—

(1) the Reserve Bank be authorized to grant such facilities to the gold mines as may induce the latter to realize their production through the medium of the Reserve Bank, thus giving the latter control over the movements of the South African gold production;

(2) the Reserve Bank be prepared to buy and sell exchange on places abroad at rates to be published from day to day;
(3) the Reserve Bank open branches at the principal centres of the Union, but its notes to be payable in gold at the Pretoria head office only;

(4) the Reserve Bank be appointed bankers to the Union Government.

A certain amount of competition with the commercial banks would no doubt result from the suggested measures, but the country as a whole would, in my opinion, benefit. I also believe that the broadened basis of the Reserve Bank's activities would enable that institution to place facilities at the disposal of the commercial banks which would compensate the latter for any loss of business that they might suffer.

For example, in the matter of foreign exchanges the Reserve Bank might assist in lessening the risk of forward exchange contracts by covering the commercial banks, if they so desire, and as far as convenient to the Reserve Bank, for any deficiency between their forward sales and purchases, at current rates. The handling of Government funds, in their capacity of bankers to the Union Government, would give the Reserve Bank control over the movement of such funds overseas and enable them to regulate remittances one way or another similarly to the India Council bills and transfers.

Again, by having their own branches at the principal centres, the Reserve Bank will more effectively become a bankers' bank than is at present the case. It will facilitate their rediscounting of bills for the commercial banks, while local clearings between the banks can be effected through the respective branches of the Reserve Bank, thus obviating daily transfers to Pretoria.

The main object, however, of the suggested measures would be to provide the Reserve Bank with the necessary power and machinery to maintain South African exchange at rates which will protect their specie reserves and thus ensure convertibility of their notes. It may be necessary for this purpose to create balances in New York and other centres as well as London, thus enabling the Reserve Bank to sell exchange on such centres and thereby force up the South African rate. On the other hand, if the Reserve Bank handle all, or most of the gold from the mines, this will greatly facilitate their task.

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**APPENDIX 18.**

**PAPER HANDED IN BY MR. C. S. RICHARDS, B.COM.**

**Currency in South Africa before Union.**

Prior to Union in 1910, the currency of South Africa was based on gold and had been so based for more than two generations, and all forms of currency were convertible into gold. Owing, however, to the existence of several Governments in the country, there was a distinct want of uniformity in its currency systems, and this had frequently been the source of confusion and inconvenience. In the first place large quantities of coins issued by the old Transvaal Mint at Pretoria were still in circulation though they were legally current only in the Colonies of the Transvaal and the Orange River, the coins issued by the Imperial Mint in London being legal tender in Natal and the Cape though accepted also in the two former Dutch Republics. The Transvaal coins frequently found their way to the coastal Colonies where they were subject to small charges by the banks to compensate them for the trouble of collection and dispatch to the Transvaal and the Orange River Colony. By Transvaal Mint Law, No. 14 of 1891, which came into operation on 26th August, the weight and fineness of the coins issued from the Pretoria Mint were the same as the British currency of those days, but the remedy allowance (for wear

*This paper was read 9th July, 1924, to the South African Association for the Advancement of Science, and has been published in the Journal of the Society.*
and tear) in the case of half-sovereigns was 0.05 imperial grains less, being 0.10 as compared with 0.15 imperial grains. During its existence from August, 1891, to its expropriation in 1908 by the Transvaal Government, the mint issued coins to the following extent and value:

<table>
<thead>
<tr>
<th>Denomination</th>
<th>Number of Pieces</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gold</td>
<td>2,565,284</td>
<td>£2,383,771 10 0</td>
</tr>
<tr>
<td>Silver</td>
<td>5,375,428</td>
<td>336,761 11 6</td>
</tr>
<tr>
<td>Copper</td>
<td>356,242</td>
<td>1,484 6 10</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>8,296,934</strong></td>
<td><strong>£2,722,027 8 4</strong></td>
</tr>
</tbody>
</table>

It is interesting to note that no one brought gold to the mint for coinage. The gold that was minted was so done by the National Bank of the South African Republic, formed in January, 1891, the lessors of the State Mint, at its own choice.

While the precious metals formed the principal circulating media of the country, in addition there were in circulation bank notes issued in varying numbers by the banks operating in South Africa. The following table gives some idea of the extent to which they were used:

<table>
<thead>
<tr>
<th>Note Issues in South Africa—Actual Notes in Circulation.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank</td>
</tr>
<tr>
<td>1. African Banking Corp., Ltd.</td>
</tr>
<tr>
<td>2. Bank of Africa, Ltd.</td>
</tr>
<tr>
<td>3. Natal Bank, Ltd.</td>
</tr>
<tr>
<td>4. National Bank of O.R.C., Ltd.</td>
</tr>
<tr>
<td>6. Netherlands Bank of S.A.</td>
</tr>
<tr>
<td>7. Standard Bank of S.A., Ltd.</td>
</tr>
<tr>
<td>8. Stellenbosch District Bank, Ltd.</td>
</tr>
<tr>
<td><strong>Total</strong></td>
</tr>
</tbody>
</table>

Since the question of the note issue and the powers of the banks in that respect assumed such great importance during the period of the war and that immediately following, it will be well to examine the laws by which such powers were controlled.
Prior to 1910 the following laws for the control of banking were in existence:

Transvaal Law, No. 2 of 1893.
Orange Free State Ordinance, No. 20 of 1902.
Cape Colony Act, No. 6 of 1891.

No law apparently existed in Natal for the control of banking and note issues. The position in the Transvaal was as follows:

The total amount of bank-notes circulated by any bank was not to exceed its paid-up capital and no bank-note was to be issued for an amount less than £1 sterling. Every bank issuing bank-notes had to keep in the Republic a reserve in legal coin equal to 33\% per cent. of the total value of all bank-notes in circulation at the time, and assets in the Republic for the balance. Notes issued under the above regulations were not to be accepted in payment in the Government offices. Provision was made for inspection of records and for the submission and publication of weekly or monthly statements and accounts as a check against any infringement. In the Free State, also, bank-notes were issued against a reserve of 33\% per cent. in gold, and in both Colonies notes were convertible into gold coin on demand at the appropriate office of the issuing bank.

In Natal, the Natal Bank, Ltd., had a note circulation the authorized amount of which was equal to the paid-up capital, and specie equal to one-third of the notes had to be held at the bank.

The Cape Bank Act of 1891 was on a much more ambitious scale, and, since it really marked the beginning of that policy of more stringent Government control of banking and currency which may be said to have culminated in the establishment of the South African Reserve Bank and the passing of the Currency and Banking Act, 1920, it must be noted in some detail.

When the Cape Bank Act of 1891 was passed, the framers had very vividly in mind the crisis of 1881 and the then recent failure of the "Commercial," "Cape of Good Hope," and "Union" banks. It is, therefore, not surprising that note issue was very strictly regulated so as to secure the two essential characteristics of security and convertibility into legal tender on demand. The ultimate redemption of the Cape bank-note was provided for by Sections 30 and 42 which, together with the restrictions enforced by section 34, placed the Cape legal tender note on as sound a basis probably as any note in the world. The principal provisions were as follows:

Bank-notes could be issued only against Government securities, which had to be deposited with and transferred to the Treasurer who then issued notes of different denominations as required by the banks, equal in amount to the par value of the securities deposited. No bank was allowed to issue notes to an amount greater in value than its paid-up capital and reserves. In case of default by the bank in redemption of its notes, the Government could sell the securities and had, in addition, a first lien on all the assets of the bank till redemption was secured. Further, the three banks issuing notes in the Cape were, by the Joint-Stock Banking Companies Limited Liability Act of 1879, debarred from the benefits of limited liability in respect of their note issue, so that the public had as security against these notes not only the Government securities specially pledged to the Cape Government but, through the latter, a first lien over all the assets of these banks and the unlimited liability of all their shareholders. This safeguard to the public will be more fully appreciated when it is stated that the figures for 31st December, 1908, were: total assets of the banks with note issue powers, £38,991,224, paid-up capital and reserves £4,450,535 (that is, the extent to which they could issue notes). Actually, however, the proportion was nearer 1 to 40, the note circulation averaging only £1,000,000. the figures at 30th June, 1908, being £832,828. Further, a tax of 1\% per cent. per annum was levied on the average note circulation during the year. The notes were convertible into gold on demand and were legal tender (in Rhodesia also) for all debts except those of the issuing
bank; monthly statements and returns had also to be sent to the Treasurer for publication in the Gazette.

Up to Union the Cape Act worked well and smoothly. If it erred at all it was in the direction of excessive precautions for the safety of the note issue, the regulations in this respect making the issue perhaps even more rigidly controlled than that of the Bank of England. If an error, however, it certainly erred in the right direction, and stands in striking contrast to the laxity of regulations during the war and immediately after, when notes were issued and credit given with a prodigality little short of criminal. The small extent of the Cape note issue was frequently commented upon. The reason seems largely to have been that, from a banker's point of view, such issues were unprofitable, for on a note circulation of £1,000,000 a profit of only about £3,000 was made.

For many years prior to Union, banking had exhibited monopolistic tendencies so characteristic of other branches of South African trade and industry. There had been a steady development of banking facilities coincident with the development of the country after the opening up of the Rand mines; and the cheque system had rapidly extended its sphere of utility. In 1881 there were in South Africa 13 banks with 122 branch offices; in 1908 there were 8 banks with 372 branches, distributed as follows:—

<table>
<thead>
<tr>
<th>Colony</th>
<th>European Population, 1904</th>
<th>No. of Banking Offices, 1908</th>
<th>Proportionate Number of Europeans to Banking Offices. (Approx.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cape Colony</td>
<td>579,741</td>
<td>157</td>
<td>2,690</td>
</tr>
<tr>
<td>Transvaal</td>
<td>300,229</td>
<td>103</td>
<td>2,910</td>
</tr>
<tr>
<td>Orange River Colony</td>
<td>143,419</td>
<td>69</td>
<td>2,430</td>
</tr>
<tr>
<td>Natal</td>
<td>97,109</td>
<td>38</td>
<td>2,550</td>
</tr>
<tr>
<td>Rhodesia</td>
<td>12,623</td>
<td>15</td>
<td>840</td>
</tr>
</tbody>
</table>

Union Currency from Union (31st May, 1910) to the Outbreak of War.

This, therefore, was the system on which Union had to operate and bring some semblance of uniformity. In common with mercantile houses, perhaps to a greater extent than most, bankers had felt the inconvenience of four different systems of laws, of taxation, of Government regulations and legal enactments pressing specially heavy on institutions carrying on business under all or several of the separate States. They had had special opportunities for observing the waste and inefficiency caused by the lack of a central administration and by the friction and misunderstanding between Governments. The probable effects of Union on banking and currency were well summarized in an article in the Bankers' Journal, South Africa, November, 1909. It was confidently anticipated that the following beneficial results would accrue:—

1. The removal of impediments to the expansion of trade and commerce, giving an impetus to banking;
2. The removal of restrictions on banking, making it more efficient;
3. The improvement of credit, because of the assumption by the Union Government of the assets and liabilities of the several Colonies and the adoption of a uniform currency system with uniform banking regulations in one Bank Act.

The question of establishing a branch of the Royal Mint was also discussed, together with the possible benefits which South Africa might expect to obtain.
It was quite apparent, therefore, that currency matters would early engage the attention of the newly-constituted Government, though it required the stress of post-war conditions to complete the scheme of unification.

Union had an auspicious start, for 1910 witnessed the return of prosperity after years of stagnation consequent on the Boer War, as shown in a phenomenal increase in the import trade, a gain of £7,973,500, or 30 per cent., being registered, together with an increase in the export trade. Moreover, the first year of Union saw the passing of the National Bank of the Orange River Colony, formally taken over by the National Bank of South Africa, Limited, as from 31st August, 1910. The totals of the last published statement (31st July, 1910) were £2,162,041, and the number of branches open at that date was 43.

A commencement was made in the following year towards consolidation and uniformity in the currency system. As from 31st March, 1911, Transvaal coins, that is, those issued from the Pretoria Mint by the late South African Republic, were, by Proclamation No. 135 of 1911, made legal tender throughout the Union pari passu, with coins of the Royal Mint, thus legalizing a position generally accepted for several years and removing a source of constant annoyance to bankers and business men generally. By the Stamp Duties and Fees Act (No. 30 of 1911) which came into force on 1st July, 1911, every bank having authority to issue notes within the Union had to render half-yearly statements, showing the amount of notes in circulation during the preceding half-year and had to pay duty on the notes at the rate of 11s. per cent. on the amount of the average monthly circulation during the half-year. This slightly modified, but made generally applicable to the whole of the Union, the relevant clauses of the Cape Bank Act, 1891.

Owing to the activity of trade in Europe the Deputy-Master of the Mint in London in his annual report for 1910 had to state that: "The demand for Imperial currency interfered seriously with the production of colonial coin and rendered it impossible to meet the requirements of the colonies during the year"; and this shortage gave rise to renewed expressions in responsible banking quarters as to the desirability of the establishment of a South African Mint, and so doing away with the necessity for importing specie. It was pointed out by Mr. J. Postmus, Inspector of the Netherlands Bank of South Africa, in a lecture to the Netherlands Chamber of Commerce at Pretoria, in March, 1913, that for some time half-sovereigns and large silver were almost unobtainable, and that the banks had had to import them at £2. 10s. per £1,000, a task with which they cannot legitimately be charged. It is interesting to note that in the same lecture Mr. Postmus argued very forcibly and clearly the desirability of a central bank—six years before Mr. (now Sir) Henry Strakosch assisted in establishing the S.A. Reserve Bank. Others in positions of authority in the banking world committed themselves to the idea of a Mint and the codifying of the banking laws in South Africa. Criticism was specially directed against the "unscientific system of note issue in the Cape Province" and the hope was expressed that "the Union Government will deal with this subject of note issue on more scientific lines, for if this were done a great deal of legitimate business now offering which cannot be undertaken owing to the restriction of credit could profitably be done." (Mr James Dalison Alexander, Chairman of the African Banking Corporation, Limited, in his speech at the ordinary general meeting at Salisbury House, London Wall, 8th January, 1914.) Mr. P. Davis, Chairman of the Natal Bank, Limited, at the annual meeting in Maritzburg, 13th February, 1914, expressed himself in almost identical terms: "We are," he said, "in full agreement with the remarks of the chairman of the African Banking Corporation regarding the Government's requirements in connexion with the issue of bank-notes in South Africa. In the Cape Province a proportionate value of Cape Government Stock has to be pledged to the Government. In the
Transvaal, banks are required to maintain one-third of the amount of note issue in specie in the bank's coffers. Surely those banks which have substantial reserves and uncalled capital at command should be exempted from such an imposition." Such remarks show a rather deplorable lack of appreciation of the absolute necessity for stringent control of bank-note issues, especially in a country with little banking tradition, and of the fact that "substantial reserves" are by no means an adequate or certain check on over-issue.

In the light of subsequent events one is tempted to wonder whether "more scientific lines" from the banker's point of view, included the right to flood the country with inconverible notes; later events certainly suggest it and lead to the conclusion that the "unscientific" system complained of was somewhat more scientific than the "scientific" system they finally grafted on the country during the War.

During the years before the war, 1910-1914, Union trade and industry steadily expanded, the only disquieting factor being the miners' strike in July, 1913, a significant omen of later occurrences on the Rand. The process of banking consolidation continued and 1912 witnessed a further extension of the sphere and size of the National Bank, which, in the early part of the year purchased the business of the Bank of Africa, Limited, for £1,250,000 increased its paid-up capital by a like amount, and added £250,000 to its reserve fund; while during the same year the Land Banks of the Transvaal, Free State, and Natal were amalgamated and the operations of the Institution extended to all parts of the Union.

Whatever the faults of the currency system in 1914, the fact must be emphasized that every piece of money in the hands of the people was either gold, or represented and could be converted into, gold. The virtue of the system lay in the fact that every value expressed in pounds shillings, and pence was ultimately and easily referable to the exchange value of a commodity not merely of local but of universal acceptance. The fact that each bank-note issued was a promise on the part of the issuing bank to pay gold on demand constituted a check of constant pressure upon any tendency to inflate the paper currency of the country beyond its legitimate requirements. And it should not be overlooked that, as stated by Mr. Samuel Evans: "Banks are essentially institutions whose profits are made out of the monetary transactions of the people. The more money there is in circulation the larger therefore are these profits and there is consequently, in the absence of an automatic check, an inherent tendency to the over-issuing of paper money" (Report of the Select Committee on the Embargo on Export of Specie, p. xxxvi). It is apparent that these automatic checks (inadequate as they were from many standpointd in certain of the Provinces) were already arousing a feeling of dissatisfaction, almost amounting to resentment, among the bankers; and it remains to be seen to what extent advantage was taken of war conditions to get rid of such checks as were in existence in 1914, and the disastrous results which followed.

Union Currency during and after the War.

The European crisis produced no immediate adverse reactions in South Africa. The Union Government, indeed, took prompt steps to assure the public as to the soundness of the financial position, and a notice was issued by the Treasury at Pretoria on 3rd August, 1914, from which the following significant extracts are taken:—

"The Government have had under consideration the probable effects of the present European crisis on financial dispositions within the Union. The Government can see nothing in the present situation which demands the introduction of radical measures, nor does there seem to be any need for restricting banking or other financial facilities. The Government is carefully watching developments and will take every precaution for preserving and safeguarding financial stability within the Union."
It would be interesting to have some idea of what the Government understood by "radical" measures and "financial stability," for within six weeks they had passed an Act which was of all Acts the most radical and which controverted entirely the lip-service paid to "stability."

Immediately it was known that war had definitely broken out in Europe, the Government called a conference of bankers, mining houses, and merchants, and, following this consultation, negotiations were completed between the Bank of England and the Union Government, by which it was arranged that the Bank of England on behalf of the British Government should take over the whole output of the South African mines, the banks advancing the gold mining companies here in South Africa against the delivery of their raw gold deposited with the Union Government, and in return, obtaining from the Bank of England in London the equivalent, thus removing a difficulty which was causing anxiety, not only in South Africa, but also in London.

On 8th August it was announced that the Pretoria Mint would be reopened temporarily for the coining of sovereigns and half-sovereigns, this decision being the result of a desire to ensure that under no circumstances should the supply of gold specie in the Union fall below local requirements.

Further, because of the slight disorganization of the country's export trade, the Union Government, again after consultation, with the banks, completed a scheme whereby cash advances could be obtained against deposits of wool, mohair, skins, and hides produced in the Union, up to 60 per cent. of the certified value of the produce deposited, the produce warrants later (in November) being made transferable by endorsement and delivery. Following the English example, a Public Welfare and Moratorium Act was passed on 15th September, 1914.

All these measures were justifiable, but the Government then proceeded to take what seems now, a wholly unnecessary step, the first in that long chain which resulted in the abandonment of the gold standard and the monetary crisis of 1919 and 1920. By the Currency Act of 1914, which came into force 14th September, notes already issued by the banks could be, by proclamation, declared legal tender throughout the Union, and it was provided that if necessary further notes, also legal tender, could be issued against the deposit of securities with the Minister of Finance, but such notes were not at any time to exceed the amount of paid-up capital and reserves of the issuing bank. The convertibility into gold coin of such notes on demand was supposed to be expressly secured by section 5, but any value which that section might have had towards retaining real convertibility was immediately nullified by section 6 which provided that:

"Any obligation imposed by law upon any bank named in the schedule to this act to maintain a reserve in specie against its bank-note issue, shall not be enforced against such bank in respect of any bank-notes which may be put into circulation by it in terms of section 4."

Ordinary mortals will wonder how the bankers were to be compelled to redeem their notes in gold coin and at the same time be relieved of any obligation to maintain specie reserves with which to redeem the notes! There is nothing in this Act which could possibly prevent the banks inflating their note issues to any figure they desired. Moreover, it is stated in the proceedings of the Select Committee of 1920 (p. xxxvi) that "by The Currency Act of 1914 the salutary provisions of previous Acts forbidding the issue of bank-notes of a lower denomination than £5 were repealed and the issue of £1 and 10s. notes was authorized." I can find no trace of any such authorization; £1 and 10s. notes are never mentioned in the Act. The issue of 10s. bank-notes was not legalized till the passing of the Banks Act, 1917 (12th April), which contained a special clause (clause 2) declaring legal previous issues of 10s. notes and thus tacitly admitting that such had been against law. But even (one notes with horror) 10s. notes were not legalized till the passing of the Currency Act, 1914, and it would thus appear
that all such issues were unauthorised and therefore illegal. In any case the Act would seem to have been totally unnecessary, and so badly stated as to grant free rein to bankers for the multiplication of bank-note issues. It seems reasonable to suppose that the bankers would be consulted as to the construction and wording of the Act and their partial responsibility for this most unsound piece of legislation appears established.

During the first two or three years of the war the most outstanding feature of the position in South Africa was (to quote Mr. W. R. Arbuthnot, then Chairman of the Standard Bank). "the easy financial position and the comparative smoothness of business"! The issue of bank-notes of denominations of £1 and 10s. continued, bank balance-sheets showing steady yearly increases in their note circulation accompanied by equally steady increases in the totals of their advances and deposits, the whole being accompanied by a steady increase in the index figure of wholesale prices, as the following table will show:

<table>
<thead>
<tr>
<th>Year Ending 31st Dec.</th>
<th>Deposits (Fixed and Floating) Inside and Outside the Union</th>
<th>Deposits (Fixed and Floating) Inside and Outside the Union</th>
<th>Advances Inside and Outside the Union</th>
<th>Coin in the Cash of the Banks' Colliers</th>
<th>Proportion of Coin to Cash of the Deposits and Liabilities</th>
<th>Notes in Circulation Inside and Outside the Union and Other</th>
<th>Indexes of Wholesale Prices (All Goods)</th>
</tr>
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<tbody>
<tr>
<td></td>
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<td></td>
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<td>1910</td>
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<tr>
<td>1913. . . . . . .</td>
<td>45,254 42,900 41,968 1,214</td>
<td>41,854 7,824 17</td>
<td>2,304</td>
<td>7,300</td>
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<tr>
<td>1914. . . . . . .</td>
<td>45,304 42,721 41,962 1,214</td>
<td>41,854 7,824 17</td>
<td>2,304</td>
<td>7,300</td>
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<tr>
<td>1915. . . . . . .</td>
<td>51,317 40,800 41,923 1,214</td>
<td>46,397 8,442 17</td>
<td>2,304</td>
<td>7,300</td>
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<tr>
<td>1916. . . . . . .</td>
<td>55,299 45,960 45,276 6,760 12</td>
<td>51,654 13</td>
<td>2,304</td>
<td>7,300</td>
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<tr>
<td>1917. . . . . . .</td>
<td>64,768 51,924 48,122 8,681</td>
<td>536 12</td>
<td>2,304</td>
<td>7,300</td>
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</table>

These figures were quoted in the Banker's Journal (S.A.) as fully supporting the statement of the Minister of Finance, that South Africa "had been doing extremely well!"

Nevertheless, gold still circulated freely though in diminishing amounts due to its gradual displacement by the paper money. Many sections of the populace, especially the native, were extremely reluctant to give up the use of gold, and frequent complaints on this account were made by the bank chairmen at the annual meetings.

It was not, however, till 1917 that South Africa fell in with the prevailing fashion of prohibiting the export of gold coin, when in terms of the Public Welfare and Moratorium Act Amendment Act, 1917 (in force 9th July), prohibiting the use of gold coin other than as currency, they agreed as a war measure, apparently at the instance of the British Government, to the issue of Proclamation No. 161 of 28th August, 1917, prohibiting (except with the permission of the Controller of Imports and Exports) the exportation, to all destinations other than the Province of Mozambique, of gold in bullion, ornaments, and coin, except as personal cash in amount not exceeding five pounds in respect of any individual leaving the Union. The portion excluding the Province of Mozambique from the provisions of Proclamation No. 161 was repealed on 19th September, 1919.

Such prohibitions can only hope to be successful if geographical conditions allow, which they did not in the case of the Union not being an island and partly because two sections of the population—Natives and Indians—do not belong to the governing democracy and also have connexions with the outside, extensive smuggling out of gold coin was possible and was sure to take place if made profitable" (Professor Cannan, Economic Journal, December, 1920). Having fallen into one sin of commission, the Government now made one of omission. They apparently quite failed to appreciate the fact that the retention of convertibility of notes into gold coin would have been nothing more than
a hollow mockery, as in Great Britain, had the embargo been as effective as intended, and that even the very imperfect embargo, which alone was possible in South Africa, made it necessary to impose stringent supervision of note issue to prevent the banks flooding the country with paper money. "When a paper money is convertible into free gold, it cannot go below its par with gold, because its convertibility limits the quantity of it which can be put into and kept in circulation; when it is convertible only into a coin which cannot be used otherwise than as currency it can be issued just as freely as if it were wholly irredeemable and with the same effect on the general purchasing power of the unit of account" (Cannan).

From then on the machinery of inflation worked overtime and the manufacture of notes continued merrily, the banks and the people generally living in a fool's paradise. In 1918 notes totalled £6,451,000 and in 1919 £8,220,000. Deposits at the same time reaching £77,593,000 in 1918, and £107,076,000 in 1920, while advances had increased to £62,508,000 and £81,656,000 respectively the corresponding index figures of wholesale prices being 1918 = 1723, 1919 = 1834, the figure for 1919 having previously reached 2060 in October. Throughout 1919 the banks were agitating for the Government to issue a proclamation making their notes inconvertible, for during all this time, owing to the continuous depreciation of paper due to its over-issue, the banks had been increasingly called on to honour their promises to pay, and the sovereigns thus obtained were smuggled abroad and sold for more than the land sold for, the currency equivalent of a South African pound. In order to meet this demand for sovereigns the banks were obliged to buy raw gold in London at a premium, that is, paying more than a South African pound for each 113 grains, and getting it coined in the usual way at the London mint. In other words, the penalty which they had to pay for issuing too much paper was that they had to buy a certain number of sovereigns at 26s. or 28s, and pay them out at 20s.

The exchange position was also naturally affected. Despite the high premium on gold (which at one period reached 50 per cent.), the banks persisted in quoting rates which in no way reflected the true position up to about March, 1920, the rates being such as to show that they, the banks, were persisting in dealing with English currency as on a parity with gold, when in fact it was depreciated to the extent of about 224 per cent., as evidenced by the New York-London exchange. Their quotations, therefore, operated as a handicap on the importers and raised the cost of living, that is, commodity prices in South Africa as regards imported goods, to the extent of the difference, namely, 224 minus 74 per cent., the latter being the highest rate quoted. Exporters, on the other hand, obtained a corresponding premium. In other words, the policy of the banks either deliberately or through ignorance was such as to make the South African pound dance a jig to the music of the English; and since England's currency was undergoing at this time (1919-1920) the process of rapid post-war inflation, the continued inflation in South Africa was masked by the approximate equivalence in the exchange rate. Moreover, wages and general costs in the gold mining industry having increased considerably in paper money, it looked as though the interests of the mining industry lay in a continuance of the gold premium.

The agitation by the banks for a proclamation by the Government declaring their notes inconvertible continued. The first serious step in this direction took place early in October, 1919. On the 3rd of that month a joint meeting of representatives of the Government, the banks, and the gold mining industry was held in Johannesburg under the chairmanship of Sir Evelyn Wallers, President of the Chamber of Mines, to "consider the Government regulations dealing with the export of gold over the inland borders of the Union of South Africa, and particularly their application to East Coast natives returning to their homes from employment on the Witwatersrand gold mines."

After some discussion at this meeting it was assumed "that the country would proceed to a paper currency, and it was ultimately
agreed that a commencement should be made to pay all natives their earnings in bank-notes instead of gold, after a preliminary educational campaign by recruiters, in which magistrates should be asked to assist; that other employers (e.g. railways, municipalities, chambers of commerce) should be asked to do likewise pending the issue of Government notes, the Government and the banks agreeing to do everything possible to assist."

The Government apparently was not prepared to accept the above recommendations without further consideration and investigation. Consequently, on 22nd and 23rd October, 1919, a conference of representatives of the Treasury, chambers of commerce, the banks, and the mining industry was held in Pretoria, under the presidency of the Minister of Finance. Mr. Orr. Two resolutions were passed, the representatives of the banks dissenting. The first was—

(a) that the establishment of natural exchanges and of a free market for gold in the Union is desirable;
(b) that to this end the establishment of a mint and a refinery should proceed with the utmost dispatch;
(c) that the gold producers be requested to secure a modification of their selling agreement with the Bank of England so as to terminate at short notice; and
(d) that the embargo on the export of specie from the Union be not continued after the establishment of the mint.

The second resolution favoured a uniform Bank Act for the whole of the Union with stringent provisions against any inflation of the currency.

At the end of March, 1920, the House of Assembly appointed a Select Committee to inquire into and report upon—

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

The committee set up to consider this was by no means ideal. It consisted chiefly of men eminent in their particular line of life and possessing very considerable ability, but it apparently included no one who had had any training in the theory of the subject they were called upon to investigate. It is hard to understand why the Professors of Economics at Johannesburg and Capetown (who were called as witnesses only) or others similarly placed who had had special training were not included. Professor Edwin Cannan, of London, subjected the report of this committee and the monetary policy which followed it to a most searching (and adverse) criticism in an article in the Economic Journal for December, 1920, and I cannot do better than, incidentally, restate some of the arguments he used (to which as yet no answers have been forthcoming) prior to adding some points of my own.

The committee thus constituted was completely dominated by Mr. (now Sir) Henry Strakosch, admittedly a very able witness, usually resident in London, but at this time managing director of one of the large gold mine combinations, who had formerly passed through excellent practical experience of foreign exchanges in Europe and more recently had been concerned in the marketing of the gold produce of South Africa. He had written a pamphlet entitled "The South African Currency and Exchange Problem," in which he outlined the measures necessary in his opinion to place South African currency on a stable basis. The committee began by considering this, and the details of his evidence occupy the first 162 pages of the 574 pages of evidence in the bulky report issued by the committee.

Mr. Strakosch admitted that South African currency was depreciated against gold, that to maintain currency at a parity with gold it must be convertible into gold, and that to maintain foreign exchanges at par, coin and bullion must be freely exportable and importable. but held that South Africa could not "afford
to re-establish and maintain its currency on a true gold basis at the present time. As Professor Cannan picturequely put it, "as usual when currencies once became depreciated it is a case of 'jam yesterday, jam to-morrow, but never jam to-day.'" Mr. Strakosch's arguments were two-fold, and modelled on the plan so dear to those engaged in the legal profession:

(a) It is undesirable to raise the South African pound to the value of 113 grains of gold.

(b) If it were so raised it would be impossible to keep it there.

The first calls for no comment; it has been very effectively answered in the article to which reference has been made. On the second count, Mr. Strakosch misled the committee by completely ignoring the orthodox and accepted doctrine of the exchanges as taught by the economists, which is founded on—

(a) the truism that a currency or unit of account is valued for what it is worth, that is, for the commodities and services which it will buy;

(b) on the well-established economic principle, to which currency is no exception, that variations in the supply of an article affect its value or power of buying, increases tending to reduce and decreases to raise its value; and consequently

(c) that the exchange between currencies can be kept close to a given rate by due regulation of their supply.

In place of this old and well-established theory Mr. Strakosch decked up the balance of trade fallacy in slightly new guise and put before the committee the doctrine that the stability of the exchanges before the war was due to the trade or transactions of the principal countries having—apparently quite fortuitously—"perfectly balanced" (Q. 38, 165), while since the war it had been temporarily "out of balance," though it must balance in the long run (Q. 200). No one asked how an account covering exports and imports, and all the transactions included by Mr. Strakosch and the committee in "invisible exports and imports," could possibly fail to balance for even the shortest period of time. Moreover, the (majority of the) committee in their report stated that "if the exchange were brought to gold parity its remaining at that point would depend upon the maintenance of an excess of visible and invisible exports over visible and invisible imports" (Report, p. vi).

There are two contradictions here. Mr. Strakosch said that before the war the stability of exchange was due to the trade having "perfectly balanced." The committee (instructed by him) said there must be an "excess." Again, accepting the committee's point of view for a moment that the stability of the exchanges depended upon the maintenance of an excess, since, before the war, exchanges were stable, all countries must have been maintaining this excess! One naturally wonders to whom it went—and why?

The majority of the witnesses (except, of course, the professional economists) entirely fell in with this view. An important exception was Mr. Samuel Evans, Chairman and Managing Director of the Crown Mines, who alone of all the mine owners made a vigorous stand for sound doctrine, and saw that any special and limited loss ought to be faced in view of the general advantage to the gold industry of the restoration of the general use of gold currency.

Moreover, Mr. Strakosch (and he was naturally strongly supported in this by the bank managers) denied that the rise in prices in South Africa was caused by the increase in the bank-note circulation. In a second pamphlet issued in December, 1921, "The South African Currency and Exchange Problem Re-examined," he reaffirmed this view. "There never was any solid ground," he wrote, "for the assertion that the note circulation of the Union was redundant." By future students of this period of South African currency history this view will never be tenable. It is quite easy to show that there was not only inflation, but that inflation was threefold. Granted that notes to a certain extent had taken the place of gold (incidentally why had they?), there was still a large amount of coin in circulation; the natives working on the Rand gold mines were up to 17th December, 1920, paid in
gold; but the note circulation had been quadrupled. Mr. Strakosch says in his second pamphlet (p. 7) that £8,900,000 in notes on 31st March, 1920, was not excessive. But the notes finally totalled in 1920 £9,469,000. Presumably the extra half-million also was not redundant.

Inflation through notes, however, was the least important. Mr. Strakosch apparently never mentioned the huge increase in the bank's advances and deposits, though the Cunliffe Committee in their interim report had pointed out how currency in England had been inflated through the creation of bank credits. Exactly the same occurred in South Africa. Bank advances and deposits totalled in 1913 £41,968,000 and £44,874,000 respectively. In 1920 they were £91,139,000 and £102,333,000. Moreover, the ratio of cash to deposit liabilities fell from an average of 20 per cent. before the war to about 8 1-16 per cent. in 1919. Inflation was therefore three-fold.

(a) Through the increase in notes.
(b) Through the increase in advances by the banks.
(c) Through a diminution of the ratio of cash to liabilities.

To prove his assertion regarding the lack of relation between the supply of money and prices (second pamphlet, p. 10), Mr. Strakosch shows that maximum prices were reached in July, 1920, while the maximum note circulation was attained at 31st December, 1920. The statement is correct, but the inference wrong, for deposits had at the end of 1920 fallen by about £25,000,000. His adverse criticism of the purchasing power parity theory incidentally received a severe blow by the publication of Professor Keynes's article in section 1 of the "Reconstruction in Europe" number of the Manchester Guardian (1922), together with the same author's recent "Tract on Monetary Reform"—though Professor Keynes was supposed to be impliedly in sympathy with Mr. Strakosch.

"Side-tracked and confused by all this, the committee never seriously considered the real practical issue which should have been put to it; whether it was best for South Africa to keep her currency level with gold or level with the British paper pound." (Cannan.)

With the exception of one or two members who strongly opposed the conclusions reached, the committee decided to recommend the continuance of the embargo, the discontinuance of the convertibility of paper into coin and the creation of a new central bank of issue with power to issue unlimited bank-notes against 40 per cent. of gold. Their report was presented towards the end of June, 1920, together with a Bill drafted by the Treasury and considered by a conference, convened by the Government, and presided over by Mr. Samuel Evans, of banking, mining, industrial, commercial, and farming representatives. As a result the Currency and Banking Act, 1920, was passed and came into operation on 17th December, 1920.

This Act gives authority to the Treasury to receive deposits of gold coin and bullion to the value of not less than ten shillings and to issue therefor certificates known as gold certificates. Such certificates may not be issued for a sum in excess of

(a) the face value of the gold coin presented, provided such coin is not less than the least current weight prescribed by law for such coin, and
(b) £3. 17s. 10d. per ounce standard for the gold bullion or light coin presented, subject to such charges as may from time to time be prescribed by regulation to cover the cost of refining and marketing.

Wherever the market price of gold in the Union exceeds £3. 17s. 10d. per standard ounce, a proclamation may be issued declaring the suspension of the redemption of gold certificates. (Proclamation No. 220, 15th December, 1920.) Otherwise gold certificates are redeemable at the Treasury in gold specie on demand. Gold certificates are legal tender for the payment of any
sum up to their face value, and the Treasury is required to publish weekly a statement of the gold certificates issued, redeemed, and outstanding on the Saturday preceding the publication. The Treasury may require each bank transacting business in the Union to deposit at the Treasury the whole or any portion of the gold coin held by or on behalf of such bank and receive in exchange gold certificates. It was provided that gold certificates should be convertible into gold after 30th June, 1923, unless otherwise determined by Act of Parliament. With a view to arriving at some decision on this important point, a Currency Conference was held in October, 1921, in Pretoria, with Mr. W. H. Clegg, Governor of the South African Reserve Bank (referred to later), as chairman, and it reported in favour of an ultimate return to the gold standard of the same weight and fineness as before the war and against any inflation of the currency. With these objects in view the conference made the following recommendations under a majority report:—

(a) That the inconvertibility of the gold certificate be extended to 30th June, 1925.

(b) That the embargo imposed on the export of gold bullion under the Public Welfare and Moratorium Act, 1914, and later amendments be removed as soon as possible and that the export and import of the precious metals in the form of bullion be freed from all restrictions.

(c) That it be open to the public to make contracts with an express provision for payment in gold, and that, if necessary, the law be altered so as to prevent a debtor discharging his obligations (unless with the consent of the creditor) in any form of money other than that specified in the contract.

(d) That the provisions of the Public Welfare and Moratorium Act and amendments thereto, empowering the imposition of an embargo on the export of coin, be not continued after 30th June, 1922.

The Public Welfare and Moratorium Act was allowed to lapse on 30th June, 1922, and thereafter the movement of gold to and from the Union was freed from all restrictions.

On the recommendation, therefore, of this conference, the period of inconvertibility of gold certificates was extended by the Currency and Banking Act Amendment Act, No. 22 of 1923 (referred to later), to the 30th June, 1925.

Chapters II and III of the Currency and Banking Act, 1920, provided for the establishment at Pretoria of "The South African Reserve Bank," which is intended to occupy in the South African banking system a similar position to that occupied by the Bank of England in the English system. Particulars of its control and functions need not be detailed here—they can be seen fully set out in the "Official Year Book of the Union"—one or two points only require mention. The bank has the sole right to issue bank-notes in the Union for a period of twenty-five years, and every bank transacting business in the Union is required to hold reserve balances in the Reserve Bank equal to at least 13 per cent. of its demand liabilities in the Union other than notes, and 3 per cent. of its time liabilities to the public in the Union.

The Act came into operation on 17th December, 1920, and the bank opened on 30th June, 1921. In December of the same year it notified the Treasury that it was in a position to issue notes. A Proclamation (No. 14 of 1922) was issued declaring that on 30th June, 1922, all other banks should cease to issue or reissue bank-notes. The Treasury subsequently prescribed the following denominations of notes to be issued: 10s., £1, £5, £20, and £100. The Year Book (p. 892) states that: "as, however, there was found to be a shortage of £1 notes, the Reserve Bank at the request of the other banks actually began issuing notes in April. By the end of July the change over was practically complete."

Until the issue of its notes the business of the Reserve Bank was chiefly confined to granting advances to the Government and acting as a clearing-house for other banks. Since then it has been
engaged in building up a rediscount business confined to other banks.

The working of the Currency and Banking Act, 1920, having disclosed certain minor faults, it was amended by the Amendment Act (No. 22 of 1923), the principal changes being in the constitution of the Board of Directors of the Reserve Bank, the relation of the other banks to it, and the rights of the Reserve Bank with regard to rediscount, Treasury bills now being utilized.

The reasons given for these amendments were, briefly, as follows:

(a) The Board found it difficult to discuss certain aspects of banking policy before representatives of the banks;
(b) the supply of good commercial paper for rediscounting proved insufficient; and
(c) the use of British Treasury bills would both make up this deficiency and enable the commercial banks to utilize their London balances in the Union pending a return to the gold standard.

The movement for a mint had continued throughout the war, and following on several recommendations the establishment of a branch of the Royal Mint at Pretoria was provided for by the Union Act No. 45 of 1919, which appropriated £40,000 annually out of the consolidated fund for the establishment and working expenses. A Royal Proclamation, dated the 14th December, 1922, determined the Pretoria Mint to be a branch of the Royal Mint, London, for the purpose of the manufacture of the British sovereign and half-sovereign. The Governor-General's Proclamation No. 37 of 1922 (the Pretoria Mint Proclamation, 1922) gave effect to the above Order-in-Council as from the 1st January, 1923.

The Coinage Act, No. 31 of 1922, determines the powers of the Minister of Finance in respect to the coinage of South Africa silver and bronze coins, and of the Governor-General in respect to dimensions and designs, etc. The denominations, weight, and fineness, and legal remedies for coins to be made at the Pretoria Mint are therein scheduled. Provision is also made for the purchase of metals for coinage.

From the 1st January, 1923, when the Governor-General's Proclamation became effective, the annuity provided by Act No. 45 of 1919 became payable and the Pretoria Branch Mint began to function. Government Notice No. 742 of the 2nd May, 1923, contains the regulations issued by the Governor-General as to the deposit of gold bullion at the Pretoria Mint. The first delivery of silver coin was made from the Mint on 13th June, 1923. The first issue to the public by the banks was made about a month later, while the first issue of bronze coins to the public occurred on the 14th August, 1923.

The bank amalgamation movement, to which reference has previously been made, continued during the war. The Natal Bank, Ltd., was absorbed by the National Bank of South Africa, Ltd., as from 30th September, 1914. At the time of its absorption it had 38 branches and its paid-up capital amounted to £500,000. No further amalgamation took place till 1920, when, coincident with the same movement in Great Britain, the African Banking Corporation, Ltd., was taken over by the Standard Bank, which increased the fixed and floating deposits of the latter (as at 30th June) from £47,753,000 to £57,770,431 and advances from £36,969,750 to £43,983,044. The African Banking Corporation at this date had 71 branches and agencies. Such concentration of power (there being now only two commercial banks, the Standard and the National) has been viewed with some misgiving, but, on the whole, since confidence is of the essence of banking, and since size certainly promotes commercial confidence, such distrust, especially in view of the control which the Reserve Bank may be capable of exercising, appears to be without much foundation, the commercial banks, it is hoped, having profited by the lessons of the war against pursuing any anti-social policy.
As I have already shown, the banks of South Africa advanced much too freely during the fictitious boom and inflation of 1919-1920; but, further, they appear to have reduced facilities in some cases with as much haste and as little discrimination and to have thus contributed to the resulting depression. Mr. Francis W. Hirst in his lectures out here last year gave it as his opinion that "a better educated staff and a more careful selection of branch managers would assist South Africa in its recovery and help to secure it against a recurrence of similar catastrophes in the future." Speaking in London three years ago, Dr. Walter Leaf, chairman of one of the "Big Five," said: "The banker is the universal arbiter of the world's economy." His responsibility being therefore admittedly great, his equipment and training should be proportionately sound and thorough; and in this country, where banking is not regarded as the important and honourable career it is in England, banking authorities would do well to bear in mind the dictum of that discriminating bank critic, the late Walter Bagehot: "Good banking is made by good bankers and not by good laws."

I have tried to show that the boom of 1919-20 is directly traceable to monetary causes, namely, inflation of currency and the indiscriminate granting of credit. This country is committed to the resumption of the gold standard as soon as possible, and the authorities are supposed to be quite opposed to any inflation of the currency. Yet last year the Act to which I have already referred was passed, which introduced the possibility of further inflation and therefore may unnecessarily postpone the resumption of specie payments. I cannot do better than repeat the criticism made on the Currency Amendment Bill last year by Mr. Hirst: "The Government," he said, "is altering the Currency Act and introducing Treasury bills (i.e., Floating War Debt) to serve as a basis for additional paper currency, in order to link South African money to the inconvertible paper currency of Great Britain (which is still called sterling) and to postpone the remonetization of gold until Great Britain returns to the gold standard."

Sir Abe Bailey, a supporter of the late Government, concedes all that has been urged by the critics. He supports the amending bill for the very same reason that Mr. Merriman opposes it. He is an inflationist; he believes in the artificial manufacture of rising prices, a devaluation of money.

He therefore welcomes the bill, as a means of expanding the currency. He says the Treasury bills will enable the Reserve Bank to create a further £11,356,000 of paper money notes instead of the £1,627,000 under the present system. "That will be the result of the bill," said Sir Abe Bailey, "and, personally, I think it is an extraordinarily good thing."

While such fallacies dominate the minds of leading men in this country, it is quite obvious that we cannot expect any early return to the principles of sound finance and "honest" money. The inflation of paper money means a rising cost of living and a decline in real salaries and wages, together with a continued decline in the value of gold, South Africa's chief export. Because of this last consideration I have headed my closing section

The Future of Gold—and of South Africa.

I need make no apology for linking these two together. It is superfluous to say that the prosperity of South Africa is largely dependent on that of its gold mining industry. Of the total gold output of the world in 1920 British South Africa produced 53 per cent. and 56 per cent. in 1921. Of the total exports of British South African produce gold formed—

<table>
<thead>
<tr>
<th>Year</th>
<th>Per Cent.</th>
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<tbody>
<tr>
<td>1913</td>
<td>58</td>
</tr>
<tr>
<td>1914</td>
<td>59</td>
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<tr>
<td>1915</td>
<td>58</td>
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<td>51</td>
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<td>1920</td>
<td>55</td>
</tr>
<tr>
<td>1921</td>
<td>54</td>
</tr>
</tbody>
</table>

The average of 63 per cent. in the five years 1914 to 1918.
Consequently, in considering the bearing on South Africa of exchange and currency devices it is essential that we should not overlook the fact "that the use of gold for money is so enormously greater than its use for other purposes that its value as money fixes its value as a whole, since its money use is by far the largest factor affecting the demand for it." "The value of gold," writes Professor Cassel, "must be very unstable indeed if it is not supported by its position as a monetary standard for a series of important countries" (Daily Telegraph, 11th October, 1921). Of the stock of gold in the world it has been estimated that fully 70 per cent. is used as money in normal times, and a considerable portion of the remainder is also potential money. It is unlikely that gold will continue a source of attraction for hoarders in India if it ceases to be used as money.

Looking these facts squarely in the face, no other conclusion can be arrived at but that it is entirely in South Africa's interests that the policy of the Union Government should be directed towards the re-establishment at as early a date as possible of the gold standard. The most recent authoritative pronouncement on this question as regards the South African Government's policy was the declaration by Mr. Burton at the Imperial Economic Conference last October, to the effect that the Union Government would stick to sterling only so long as the monetary policy of the British Government was in the direction of the restoration of the gold standard; "but," he added, "we certainly should not stick to sterling if there were a change of policy in this respect."

The attention of economists is being concentrated more than ever before on the world's monetary problems with a view to a satisfactory solution. What is to be the monetary policy, the monetary system of the future? What the position of gold? The solution to these questions is of supreme importance to South Africa—her immediate future existence largely depends on the policy adopted. Since the war, gold has been relegated to a subsidiary position in the currencies of most countries; the gold standard no longer functions; and there has been a strong and growing movement for a "managed-currency system" in which gold will play even a lesser part—perhaps even no part at all.

The leader of this movement is Professor J. M. Keynes, whose outstanding ability as an economist no one could call into question, and who, in a brilliant contribution to monetary science, recently published his considered views on the question in his book, "A Tract on Monetary Reform." His views deserve the most serious consideration of all South Africans—they are pregnant with possibilities. "The gold standard," he says, "is in truth already a barbarous relic. . . . Advocates of the ancient standard do not observe how remote it now is from the spirit and the requirements of the age. A regulated non-metallic standard has slipped unnoticed. It exists." More recently still the Economic Journal for June, 1924, just to hand, gives an account of a discussion by experts on monetary reform. Professor Keynes, during the course of his contribution, said: "We may even now be up against the ultimate truth, that a perfectly conducted gold standard does not require any gold at all, or practically none."

Moreover, it must be emphasized that the value of gold itself in America is not purely "artificial," since fresh imports of gold are not allowed to exercise any effect, because America could not face the resulting depreciation of its standard. "What the miners of the Rand have laboriously brought to the surface is buried in the vaults of Washington." Gold itself has, therefore, become a managed currency. This is costing the United States of America about $100,000,000 per annum. How long will the Federal Reserve Board continue this policy—this fiction? No one can tell, but "some day soon the Mints of the United States may be closed to the acceptance of gold at a fixed dollar price."

The urgency of the problem is, therefore, apparent. South Africa of all countries cannot afford to stand aloof while policies vital to her are being settled over her head. No matter what
our ideas may be as regards an ideal currency (and it must be frankly admitted that gold is not ideal), there can be no question of the fact that a solution which does not involve the use of gold in as great a measure as before cannot be anything but disastrous to this country. It is the onerous duty, therefore, of those in authority to see that no opportunity is lost for gradually and wisely re-establishing an effective gold standard out here, and thus, if possible, giving that lead to the world which might prove to be the first step in the general re-establishment of the pre-war standard of value.

APPENDIX 19.

MEMORANDUM ON THE RETURN TO THE GOLD STANDARD, SUBMITTED BY THE NATIONAL BANK OF SOUTH AFRICA, LIMITED.

Pretoria, 10th December, 1924.

As the law stands, the Union of South Africa will suddenly return to gold on 1st July, 1925, regardless of the position of sterling at that date. In the last three or four years there has been a gradual appreciation of sterling (with fluctuations), and the point at which sterling now stands is not far from mint par. The expressed aim of British finance is to get back as soon as possible. At the end of 1925 the embargo on exports of gold from Great Britain expires, and hopes are expressed that there will be no need to renew it. In these circumstances we regard it as a mistake for this country to decide, irrespective of conditions, to return precipitately to gold at a fixed early date. Without committing ourselves to the view that South African currency should be permanently linked with sterling, we consider the difficulties and hardships mentioned hereunder may be minimized if we continue to follow sterling, at any rate while British policy and its effects are as at present.

Taking as evident that in the years following 1914 there was inflation of sterling, and consequently of South African currency, it might be assumed that a full corresponding deflation must take place. There is, however, the alternative of stabilization of the currency so as to retain part at least of its depreciation, i.e. by the permanent rise of gold (American) prices, and however disadvantageous to South Africa a permanent lowering of the purchasing power of gold may be, the probability of this alternative has to be faced. Sterling has already made its arduous climb for the greater part of the way back to a gold basis. The return has been gradual, not sudden, and even so has been necessarily accompanied by serious business failures and unemployment. Our view is that the rest of the way can be traversed gradually without such painful results, but that if the return is sudden and arbitrary the effect on the community will be unnecessarily severe. We should not recommend an official return to gold until the sterling premium on gold has disappeared.

It is obvious that any appreciation of the currency must benefit creditors and holders of cash and investments at the expense of debtors, and holders of goods and property. Our contention is that the disadvantages will be increased if the appreciation is abrupt instead of being spread over twelve months or longer. The extent of the sudden appreciation is, of course, also of importance: an appreciation by a small percentage might be little felt, but one of 8 per cent. or 10 per cent. would have serious effects.

We summarize, as follows, the effects of a sudden return to gold independently of Great Britain, at a time when a considerable premium exists:

(1) Fall in prices and depression in trade.

(a) Holders of stocks which can be replaced at lower prices must suffer from the fall in value.
(b) Producers, whether of gold, wool, maize, or other products, will receive less in South African currency for their products. While it may be thought that the gold producer can look after himself, the position would be difficult of explanation to the farmer.

(c) The consumer will ultimately benefit from a reduction in prices.

[To the extent that classes (a) and (b) are consumers or wage-payers they may be expected to benefit.]

As the rates of exchange will favour importers there will be a temptation to import more than trade demands, and the experience of the aftermath of 1920 shows that such over-import has a wholly baleful effect on trade. South Africa is manifestly so situated that world markets are not available for the disposal of her surplus imports.

The increase in imports will tend to accentuate the fall in prices of stocks, but influences in the opposite direction will be—

1. the fluctuations in sterling, and consequently in the London/South African rate, so that speculators rather than the community will benefit;

2. the lack of complete competitive organization in South Africa, so that the fall in retail prices will lag behind the fall in wholesale-prices, or, in other words, the rise in the internal purchasing power of South African currency will lag behind the rise in its external purchasing power;

3. experience shows that the fall in wages will lag behind the fall in the cost of living (with consequent disorganization of industry).

(2) Greater fluctuations in exchange.

(a) If South Africa returns to gold before Great Britain, the former will, of course, be severing its link with the currency of the country with which it not only does much the greatest part of its trade, but through which its trade with other countries is paid for. As indicated above, the greater fluctuations in South African/sterling exchange can only be detrimental to our trade.

(3) Loss of capital to South Africa.

With the prospect of a return to gold by Great Britain at no distant date the exchange rate will be an inducement to investors and speculators to convert their holding in South African currency into sterling, and to refrain from the reverse operation. The result will be—

(a) reluctance to provide British capital for development of South Africa;

(b) tendency to realize British investments in South African stocks, i.e. in South African industries and undertakings;

(c) tendency to transfer funds from South Africa to London to obtain the discount. This was a marked feature in 1920, although the greatest discount then fell far short of the premium on gold, and although there was then no immediate prospect of Britain returning to gold.

Some justification for facing the hardships mentioned would be found if a return to gold would give greater stability, but [as indicated in No. (2) above] so long as sterling is not on a gold basis, fluctuations and uncertainty are rather to be expected from the step. Another argument for the return to gold by South Africa is that, as the premier gold producer, we should set an example to the nations of the world, and at the same time raise the value of our product (gold) by creating a demand for its use as currency.

This overlooks the relatively negligible part South Africa takes in the world's economics—even a dozen years of our total gold output would not approach the sum of the hoard in the United States.
With the indications, as mentioned, of an early return to gold by Great Britain, and with this aim before both South Africa and Great Britain, our recommendation is, by further extension at June, 1925, to avoid an abrupt change.

For the National Bank of South Africa, Ltd.,
GEO. R. PATTERSON,
General Manager.

London Balances.

1923.

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<tr>
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<tr>
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<tr>
<td>March</td>
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<td>July</td>
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<tr>
<td>August</td>
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<tr>
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<tr>
<td>October</td>
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<tr>
<td>November</td>
<td>5,874,000</td>
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<tr>
<td>December</td>
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1924.

<table>
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<tr>
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<tr>
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<td>September</td>
<td>5,702,000</td>
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<tr>
<td>October</td>
<td>5,363,000</td>
</tr>
<tr>
<td>November</td>
<td>5,459,000</td>
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</tbody>
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Note.—So many factors enter into the compilation of these figures that they cannot be accepted as a completely accurate reflex of our position in relation to sterling currency.

APPENDIX 20.

PAPER RECEIVED FROM MR. P. VUYK.

Note on South African Currency Problems.

1. The fluctuating discount (or premium) at which British sterling has been quoted in South Africa since the end of 1919 does not justify the conclusion that the firm tie which existed between the two currencies before the war has been loosened—the tie is as strong as ever. The fluctuations are merely an undesirable consequence of the deviation of both currencies from the righteous path of gold. If both return to gold and stay there, premium and discount are bound to confine themselves to pre-war limits.

2. Firmly tied to British sterling, South African sterling, although the currency of an independent economic unit, automatically follows the ups and downs of the international value of British sterling. On top of the obvious disadvantages of a paper currency, South Africa piles first the drawbacks of having an alien paper currency, over the inflation or deflation of which it does not have the slightest control, and secondly, the detrimental fluctuations of its value against British sterling. Losses through the fluctuations in the discount (or premium) to the country as a whole, to say nothing of the irritating and incommensurate way in which these losses are distributed amongst the individual members of the community, are undeniable.
If the alterations in the rates are to serve any reasonable purpose it is evident that the discount on London will be higher when the banks on balance buy more payments in London than they sell, and lower when the reverse is the case. Thus the whole of South Africa is the loser, whereas the banks make an extra profit. Even if they have no special desire to do so, circumstances seem to force them to it, because in times of heavy demands upon their resources for the financing of seasonal exports they must, by an increase of the discount, induce some to make anticipated remittances to England, influence others to delay drawing, and offer an extra benefit to those who can import just then. They are thus able to keep at the disposal of South Africa sufficient funds to continue the financing of the export trade. To what disastrous results excessive export demands may lead, became manifest in 1920, when, notwithstanding the high discount then ruling, the banks ran short of available funds and had to decline the purchase of prime export bills.

3. Once, however, it is realized that the fluctuations in the discount are not an expression of the relative value between South African and British sterling, but only the expression of the seasonal divergence of export and import financing, it is evident that on balance the difference between the amount of money transferred through the banks from South Africa and to South Africa, taken over a complete period, say a year, is not affected by the rate. This means, that it should be possible to do without fluctuations altogether and to maintain the currency on a par with British sterling.

Before 1919 it was possible to bridge the seasonal movements. There is no reason why this should not be possible now, but the fact that gold can no longer settle balances. The failing of gold, however, was partly remedied by the Currency and Banking Acts Amendment Act, 1923, which enabled the South African Reserve Bank to discount, under certain conditions, British Treasury bills and foreign bills. The existence of a discount, and a heavy discount at that, notwithstanding it is possible to avoid a disparity against British currency, with all its drawbacks, forces the conclusion that the South African Reserve Bank has no defined policy and halts between two opinions, or, if it does have a policy is without power to enforce it?

4. If, therefore, the Gold Inquiry Commission should decide against the prompt convertibility of paper into gold independent of Great Britain, it is still possible for South Africa to have a currency tied to British sterling without the harmful fluctuations. To reach this goal the Currency and Banking Act would have to be amended. The South African Reserve Bank would have to be authorized to hold British Treasury bills and/or British acceptances for its own account and to use them as cover for its note issue. At present the South African Reserve Bank, although using the term discounting, is practically only making advances in South African sterling repayable in South African sterling against such securities. Such amendments, of course, would make the tie with the Bradbury absolute.

The so-tied currency has in the past proven its merits. Before and during the war it worked most satisfactorily. It made things exceedingly easy for the business man who bought in British sterling, and who did not know of the existence of such a thing as foreign exchanges. If the so much disliked discount (or premium) is done away with there will be a direct saving to the country, the business community will be well satisfied and feel that things at last are right again.

But it must be well understood that this would mean a continuation of paper currency, perhaps for a long time yet, with all its drawbacks, like the uncertainty for the trading community and the unexpected and unavoidable fluctuations in the cost of living with their accompanying labour unrest. It means that, whereas practically every country, including Great Britain, is endeavouring to create the possibility to return to gold, South Africa, the gold producing country of the world, which out of pure
selfishness alone should be in the front ranks of those advocating the restoration of gold to its former function as the basis of monetary systems, voluntarily decides to stick to paper.

5. But can South Africa return to gold? It seems easy enough to say “Yes” now that its currency, taking account of the discount, has almost reached gold. Only, an exchange perhaps accidentally at par with gold is not identical with an acknowledged return to gold, which presupposes the possibility to remain there. A reply to the question, can South Africa return to gold, can only be affirmative if the conditions for its remaining there are propitious.

In theory the exchanges can be kept at the gold export limit in any country whose budget balances and whose bank of issue does not inflate. In practice, though, purchasing power and parity of wages play an important rôle. To take the simplest example. If in a country A, owing to previous inflation, labour agitation or the like, wages are higher than in a neighbouring country B, while for the rest both have identical conditions of production, such disparity can be levelled by disparity of the rates of their paper money exchange. If then, through special influences the exchanges of both countries are worked up to gold par, before the conditions justifying such course have been created, cost of production in country A will be higher than in country B. The result will be that export of country A is handicapped and import stimulated. Its gold exchange means unemployment and poverty. Until wages go down, which takes some time, its government has to find the money from the banks for remitting the proceeds of the gold exported, the budget cannot be balanced, inflation sets in and gold exchange is again a thing of the past.

South Africa is in the happy condition that it need not fear difficulties of this kind. It is no industrial country. Barring gold (diamonds produced at a fraction of the price at which they are marketed, need not be mentioned), all its main export staple articles are agricultural products with a cost of production far more dependent on timely rain, or preservation from locusts than on the white labour price. Gold holds a unique position. The stability of its selling value is dependent on the stability of the purchasing power of the world’s gold currencies over which South Africa has no control. For the gold industry the problem therefore is, that a reduction in the cost of production of a given quantity of gold, distances, or at least keeps pace with, a reduction in the world’s purchasing power of an equal quantity of coined gold. As long as this is achieved, the mines can continue working. If the cost reduction falls behind, their profits are reduced until eventually they have to close down. On account of this exceptional position, the only interest the gold industry has in the exchange problem is to get the exchange which guarantees stability and which is most beneficial to the country. Perhaps the gold mines will hold that when the premium on gold is 10 per cent. and the charge of the banks for remitting part of the proceeds of the gold required for working expenses in South Africa is only 3½ per cent., they benefit by 6½ per cent. The argument is a fallacy; they pay 3½ per cent. to still get a paper sterling, and paying 10 per cent. for gold sterling with greater purchasing power would be a more economical proposition. The gold mines, notwithstanding the gold premium they stand to lose, must needs be in favour of an exchange based on gold.

If, therefore, the question of wages-parity need not worry South Africa and keep it from a formal return to gold, other factors also make it easy for South Africa to remain at gold once it is there. A comparison between South African and British conditions will show the comfortable position of South Africa. South Africa is an innocent dominion of vast extent, but not an imperial factor amongst the big nations. In financial matters it plays no rôle, it neither gives nor takes foreign credits. It does not finance the movement of the world’s crops, it uses no foreign balances, as a matter of fact it does not even have the ghost of a money market. Great Britain takes first fiddle in the European political concert, London is the world’s financial clearing-house. If for some
reason or another—political disturbances in some corner of the world, labour troubles at home, scarcity of money in another centre—foreign balances are suddenly withdrawn from London, a general demand for foreign exchanges may set in, that, unless sufficient gold can be exported, the value of British sterling has to go down. Before the war export of gold answered the purpose, but then the world’s confidence in a happy end to things threatening was still unshaken. Since the war, nations are nervous, consequently money will move with more sudden and more irregular jerks. For these reasons it will be a difficult problem for Great Britain how to remain at gold once it gets there, whereas South Africa, only a big country in the making, has a much easier task.

Given a balancing budget and a bank of issue that watches against inflation—the two fundamental pillars of a gold currency—the road to the gold standard is open to South Africa.

6. If it is to be a return to gold, waiting for Great Britain means delay and it may be prolongation of depreciated currency. Even if British sterling should reach gold parity in the first half of 1925, as expected by many whose opinion counts, no one, who gave his thoughts to the subject, would dare to hold that the goal is then reached and paper sterling a thing of the past. The enormous size of the economic unit, Great Britain, and its exposed position as the world’s greatest money market, already referred to above, account for a multitude of influences ruling the exchanges, influences which usually will have the tendency to work in the same direction. It is doubtful whether British sterling, after it has reached gold, will not lose ground again and be once more forced to paper value. Speculation now helps British sterling to score. What if profit-taking sets in; if prices and wages do not follow suit; if political events on the continent of Europe put a spoke in the wheel? Great Britain will only be able to say that it has returned to gold after a long period has proven that it is able to hold its own. South Africa, thanks to favourable circumstances, can decide now. It would be unwise perhaps to miss the connexion and risk a return to an unstable paper currency with its wave of fluctuating prices and general dissatisfaction.

7. It perhaps is even to be hoped that South Africa returns to gold before Great Britain reaches gold parity. It would compel South African banks and merchants to accommodate themselves to the new conditions, so that they would not be caught sleeping, when unfortunately Great Britain after a period of gold has temporarily to return to paper. A currency of its own, one independent of Great Britain, is something new for South Africa, and it must be well realized what it means for the business man. The hue and cry is raised in South Africa when the rates on London in fairly long intervals are changed by one-half per cent. What is going to happen if, rates alter daily, fluctuate during the day? The difference between the highest and lowest rates of one week may easily amount to one per cent, or two per cent? And yet, it is only a question of training, of proper education by the banks and after a very short time the South African merchant will be just as conversant with exchanges as his colleague in Europe and will know how to eliminate the risk by buying or selling forward. The experience gained in Europe in the last ten years will be at his disposal. All will be well, if he never forgets that South African sterling is quite a different thing from British sterling; that they only have the name in common and that the benefits of an independent gold currency can only be bought at the price of a little care and foresight, when buying or selling in foreign paper currency. Matters will be simplified as soon as all the advantages of his new currency have fully penetrated to the South African merchant. He will then discontinue buying or selling in British sterling, as usually done so far, and insist upon quotations in South African currency, leaving the question of exchange to his correspondents abroad.

Nevertheless the task of the banks will be difficult in the beginning. There are many pitfalls against which they will have to warn their customers and which to the European merchant are
common knowledge. The banks will require a new and extensive organization to meet the new demands upon their services; they will have to equip proper exchange departments both in South Africa and in Europe. But would any one dare to say that they could not be up to their new task and well able to overcome the first difficulties of these innovations?

8. The invitation of two experts of noted reputation in currency matters to come to South Africa to report about the advisability of the Union returning to an effective gold standard, independently of Britain's action, shows that South Africa is at last on the right road to the solution of the problem. Committees selected from the members of the House of Assembly, which does not contain experts on the subject, cannot be expected to come to the right decision. The two select committees, who sat before, certainly did not. In the evidence given before them and which led to their conclusions, much was made of—

(a) the impossibility of maintaining the exchange at gold, once it got there;
(b) the discouragement to the British investor;
(c) the bugbear of the bank balances accumulating in London.

It will perhaps be well to say a few words on these points.

(a) The possibility to keep the exchange on gold par has already been substantiated. Conditions might have been somewhat more difficult in 1920, but as long as the economic doctrine that visible and invisible exports must balance visible and invisible imports holds good, the possibility to remain at gold par is given.

(b) The British investor, particularly if South Africa had returned to gold after the sitting of the first committee appointed in 1920, would not have been deterred from investing in South Africa, on the contrary he would gladly have paid the premium, knowing that he got gold for paper. Contrary to the intention, he has as a matter of fact been deterred by the premium he was asked to pay for remittances to South Africa, a premium which gave him no advantage whatsoever, since he only exchanged paper against paper of equal value. This keeping away from the Union of money, urgently required for the development of South Africa, is one of the most serious consequences of the present system. One of the merits of Mr. Greig's scheme is, no doubt, that the premium in London is done away with, and with it the impediments against an inflow of British capital. An independent gold currency, however, notwithstanding an eventual premium in London, is a much greater attraction to the investor, who only then will know that whatever may happen in Europe, his money in the Union is immune and keeps its value. The independent return to gold is bound to attract foreign capital, which South Africa so needs for its welfare.

(c) The accumulation of bank balances in London is said to make the unfortunate discount unavoidable. If the Union returns to gold, no further accumulation need be feared; the commercial banks in order to avoid speculative risks will bring a surplus back to South Africa. Part of the gold production, instead of being exported as a commodity, will automatically find its way into the vaults of the South African Reserve Bank and help to raise its authorized note issue. The gold currency will therefore rather increase than decrease the circulation in the Union and a contraction of credit need not be feared. If Great Britain reaches gold, a prompt return of the accumulated London balances, which can then be transferred by the commercial banks without loss, is probable.

9. One important point remains for consideration. Conditions in the South African financial world are somewhat peculiar, vastly different from what they are in European countries or in the United States of America. What power has the South African Reserve Bank to make its discount policy, necessary to protect the gold currency, effective? It is true that influences affecting the exchange are few in number as compared with those in countries with a developed money market and where foreign politics play
a greater rôle, but nevertheless home conditions in the Union may make it desirable to increase or contract credit facilities or to sound a note of warning.

South Africa has no money market. The South African Reserve Bank is a bank for banks, but one of these commercial banks is so strong that it is said never to have used any facilities of the Reserve Bank. It can afford to follow its own policy, and although there certainly is no reason to doubt its further harmonious cooperation with the South African Reserve Bank, the bank of issue, particularly responsible for the maintenance of the gold standard, should have ways and means in case of need to enforce its will.

To find a satisfactory solution of this problem is an absolute necessity if the Union returns to gold, but it can only be found by those who are entirely conversant with local South African conditions.

10. In conclusion—
(a) The Union of South Africa can improve its paper currency and eliminate the discount.
(b) This, however, can only be done if its currency is absolutely tied to British sterling.
(c) It is preferable to have an independent currency based upon gold.
(d) South Africa is able to return to gold and to remain there.
(e) It is in the interest of the country to do so.

Amsterdam, 23rd December, 1924.

P. VUYK,
General Manager, Transvaal Commercial Bank.
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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 restrictions, 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 substitution 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 shearing 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 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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Wilnot, Aubrey Charlton (Analysis of his Evidence. QQ. 1917-1984):

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