Two of the most eventful years in the history of the South African Reserve Bank: William Henry Clegg and Johannes Postmus and the 1931–1932 crisis

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\textbf{ABSTRACT}

The SA Reserve Bank (SARB) was created as a result of an earlier gold standard monetary crisis that unfolded after World War I. From 1919, South Africa nominally maintained the gold standard, but not the conversion of banknotes into gold. This article seeks to discuss the SARB’s views on the gold standard controversy, and to highlight the different attitudes of the first two governors, Clegg and Postmus, attitudes that have not previously been examined in the literature. It will also discuss the way in which the Bank of England misled Clegg, and how the views expressed privately differed from those in the SARB’s Ordinary General Meeting (OGM) documentation.

This paper considers the irony that Clegg was selected from the ranks of the Bank of England and was loyal to Threadneedle Street, but defended a monetary policy which aided one of the biggest constituencies of the Afrikaner Nationalist Party – Afrikaner farmers. By contrast, Postmus was previously at the Nederlandsche Bankvoor Zuid-Afrika, and supported the National Party position that South Africa should return to, and remain on, a gold standard independent of Britain. Despite this, Postmus’s policy turned out to be disastrous for the mostly Afrikaner farmers affected by the 1931–1932 crisis.

\textbf{KEYWORDS}

South African Reserve Bank; monetary policy; gold standard; monetary history

\textbf{Introduction}

The title of this paper comes from De Kock (1954, 137), who describes ‘(t)he years 1931 and 1932 … as two of the most eventful ones in the history of the South African Reserve Bank’, owing to South Africa maintaining a fully convertible gold standard in that period. The South African Reserve Bank (SARB) was created as the result of an earlier monetary crisis after World War I, also connected to the gold standard. Much has been made in the literature of the views of the various South African political parties on the Gold Standard debate, but little is known to date of the position and arguments of the SARB itself and its first Governor, Mr WH Clegg, on the matter, or the intimate involvement of its second Governor, Dr J Postmus, in the 1931–1932 crisis. We conducted
thorough research in the Montagu Norman Papers at the Bank of England Archives in London, the Keynes Papers at King’s College, Cambridge, the Kemmerer Papers at Princeton University, and the Vissering Papers at De Nederlandsche Bank BV in Amsterdam. This primary archival research allows us to correct this historical omission in this paper.

The theoretical framework that animates this paper is that which runs from the Mercantilists (including Thomas Mun (1664)), through List (1841), to Keynes (1923, 1930, 1933, and 1936, ch 23). After Hume (1752), this approach was a reaction against the ‘boundless cosmopolitanism’ (List 1841, Vol II: 70) of the laissez faire protagonists, particularly David Hume (1752) and Adam Smith (1776).

Friedrich List is the intellectual opposite of Smith and Ricardo. The latter try to establish political economy as an exercise in logic, a study of the internal consistency of abstractly formulated logical systems; the former attempts to immerse himself in the reality of economic history and to derive the most important lessons from it. (De Cecco 1974, 9)

John Maynard Keynes battled against this global laissez faire mindset, and its price specie flow adherents. Unlike the followers of Hume, Smith, and Ricardo, when Keynes set out his ideas, he took the exercising of geopolitical power seriously. His ideas and policy proposals were influenced by how power was exercised internationally by the rising hegemon, the United States, and by the declining hegemon, Britain. Following the Mercantilists and List, Keynes refused to be seduced by the models of the laissez faire school who ‘maintain error, reached indeed with clearness and consistency and by easy logic, but on hypotheses inappropriate to the facts’ (Keynes 1936, 371).

In the spirit of Mun (1664), List (1841), Keynes (1923, 1930, 1933, 1936), and De Cecco (1974, 1985), this paper seeks to place the ideas and policy positions of Governors Clegg and Postmus in the context of the exercising of the hegemonic and national power that prevailed at the time.

Britain suspended the gold standard during the First World War, but South Africa retained it, with commercial banks maintaining the obligation to redeem their notes for gold, despite an embargo on gold exports by the public (De Kock 1954, 11). In March 1919, the peg of the UK pound to the US dollar was ended, resulting in the UK pound depreciating against the US dollar and in terms of its value in gold (Ally 1994, 86). This implied a mismatch between the value of the South African pound, gold, and the UK pound. As a result, banknotes could be redeemed for gold at South African commercial banks and the gold sold at a premium outside South Africa (SA Reserve Bank 1971, 10). The South African government convened a Gold Conference in October 1919, inter alia, to address the crisis facing South African banks (De Kock 1954, 11).

The formation of the SARB and the appointment of William Henry Clegg as Governor

The historical context prior to the formation of the SARB is set out by Fetter (1965), who provides an authoritative account of the British debate between the supporters of the gold standard and those who wanted monetary policy aimed at the full employment of national resources. This debate raged from the time of the suspension of the gold standard in 1797, but by ‘the early 1860’s the gold standard was out of the way as a subject of controversy’ (Fetter 1965, 249). Kindleberger (1984) argues that effective management of
the gold standard by the Bank of England was the lead cause of its success in the last quarter of the nineteenth century, and until 1914. Eichengreen proposes two more fundamental reasons for Bank of England success, and the absence of controversial debate, relating to the gold standard in the last quarter of the nineteenth century. These were: credibility and cooperation (Eichengreen 1992, 5). While credibility in the Bank of England’s ability to maintain the gold standard was high, speculators would use temporary deviations from the standard as an opportunity to bet on a return to par. Eichengreen (1992) also shows that, particularly in times of crises, like those of 1890 and 1907, it was the assistance of other central banks, rather than Bank of England leadership, which was the deciding factor in the maintenance of the system.

Van Helten (1982), in setting his theoretical framework, gives more attention to the globally applicable Currency School arguments, than those, like that of the Banking School, which were more focused on national full employment. And yet he provides evidence of how the gold standard history fitted into the context of geopolitical power within the framework employed by De Cecco (1974). Van Helten (1982) sets out a fascinating cost and revenue comparison between failed German attempts to transport Transvaal gold mined by A. Goerz, via Durban and the Suez Canal, to be refined in Frankfurt and sold in Germany; and the main supply via Cape Town to the Bank of England, which was sold on the London gold market (Van Helten 1982, 540–542).

Van Helten (1982) points out that the Bank of England used ‘gold devices’ to effectively pay more than the official gold price for the gold required to boost its reserves (Van Helten 1982, 531). He explains that ‘while a 6% Bank Rate had been inadequate to encourage the inflow of gold during the Baring crisis (of 1890) … the raising of the buying prices for gold … made bullion flood into the bank once more’ (Van Helten 1982, 535). It was this practice, in the face of ‘an increasingly ineffectual Bank Rate’ that allowed the Bank of England to ‘maintain both sterling’s convertibility on scanty reserves and a measure of hegemony over the international financial system’ (Van Helten 1982, 536). Although Van Helten (1982) was skeptical on whether Transvaal gold was necessary to maintain the hegemony of the Bank of England over the gold standard, he acknowledges that

the knowledge that gold was always on the way to London (eg, the weekly shipments from the Cape) and that the Bank could always ‘tap’ this flow (which) buttressed confidence in Sterling and the Bank’s ability to maintain specie payments. (Van Helten 1982, 536 quoting AG Ford 1962, 33)

At the South African Gold Conference of October 1919, Mr JW Jagger, an importer and member of Parliament, tabled a motion stating that ‘the prohibition of the export of gold specie should be withdrawn’, which was defeated by seven votes to six (De Kock 1954, 12). The Conference resolved, among other things, that the government should introduce a uniform Bank Act for the Union of South Africa, formed in 1910 (De Kock 1954, 13), as each former colony still had its own banking legislation. The Government engaged the services of Sir Henry Strakosch to assist with the drafting of the legislation (De Kock 1954, 14).

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1Which in turn were based on the price specie flow mechanism set out by Hume (1752).
2The practice of paying more in currency for the precious metal on which the standard was based was advocated by many thinkers concerned with full employment, including Charles Davenant and William Lowndes. See Graeber (2011) and Martin (2013) for accounts of the debates.
By this time, Britain had lost its dominance of the real economy of the world, although up to 60% of world trade was settled in sterling (Eichengreen 1992, 43). In the two decades before the October 1919 Gold Conference in South Africa, British gold reserves were often under £40 million, compared to £100 million and £120 million for France and Russia respectively. The reserves of the Bank of England seldom exceeded 3% of British money supply (Eichengreen 1992, 49). When South Africa, the world’s largest gold producer, hinted that it might return to the gold standard independently of Britain by 1924, the Governor of the Bank of England, Mr Montagu Norman, understood immediately the threat that this posed to London’s dominance of world finance.

Two months before the South African Gold Conference in 1919, Strakosch, Managing Director of the South African mining company, Union Corporation, had sought out John Maynard Keynes with a view to forming a new selling organization for South African gold. The negotiations for a proposed selling organization, run by Strakosch and Keynes, meant that Strakosch had meetings with the South African Gold Committee, particularly Lord Harris and Sir Lionel Phillips, Mr Anthony de Rothschild, and Montagu Norman at the Bank of England.

Strakosch’s plans for a gold selling organization came to nothing, but because of his intense lobbying of most of the important decision-makers at the time, Strakosch became the ideal candidate to convey to the South African government British advice on the problems raised by the Gold Conference. Strakosch’s value to Norman as an ally increased substantially at this time. Strakosch met Norman 46 times alone, and more than 20 times in company, from 1920 onward. Much of that time was spent planning a South African monetary policy that suited Britain (Sayers 1976a, 202).

Prime Minister Smuts, via the Secretary Office of the High Commissioner for the Union of South Africa, asked Keynes to join Strakosch in advising the South African government on monetary policy, but Keynes declined, and Strakosch left for South Africa, by ship, on 8 December 1919.

Strakosch cabled Keynes, just prior to his departure by ship for South Africa, to tell him of his conviction that ‘the only effective remedy is issue notes which, though inconvertible, are fully backed by gold in vaults of Treasury’. His letter to Keynes, dated 17 February 1920 and posted from South Africa, is a brilliant summary of how an expert, who has the confidence of the ruling elite, can force his will on the process of decision-making:

Two days after my arrival in Johannesburg, I went across to Pretoria and had a long talk with Smuts. He enquired after you and was disappointed that you did not come out … Towards the end of last month, I presented to Smuts my memorandum. A few days later we had a conference at which Mr. Orr, the Minister of Finance, and Mr. E.H. Farrer, the Financial Secretary to

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On 14 August 1919, Strakosch wrote to Keynes, indicating that they had already discussed the proposed gold marketing organization: ‘our conversation of the other day has fortified me very considerably in the belief that it is right to pursue the matter further.’ Keynes agreed to meet Strakosch in London (Keynes Papers, Kings College Cambridge, L/ST/24–25, letter from Strakosch to Keynes dated 14 September 1919).

Ibid. Strakosch met Rothschild on 15 September 1919.

The extent to which Strakosch managed to ingratiate himself with the British power elite is borne out by the fact that he survived the purging from the Board of Directors of Goerz and Co (the Union Corporation as it became known after 1918) of the other members of Germanic background after the outbreak of WWI in 1914, despite many other German directors being removed from their positions in various South African mining companies (Phillips 1924, 161).

Keynes papers L/ST/148–149, letter from Lane to Keynes dated 23 September 1919.

Keynes papers L/ST/130. Cable from Strakosch to Keynes dated 10 December 1919.
the Treasury, were present. My views were adopted, subject to the advice of a committee consisting of representatives of the Associated Chamber of Commerce, Chamber of Mines, the Federated Chamber of Industries, the Agricultural Union and the banks. There are also to be three members nominated by the Government and the Financial Secretary to the Treasurer. I have been invited to act as one of the Government’s nominees, which invitation I, of course, accepted.9

Strakosch largely wrote the Currency and Banking Act, No 31 of 1920 (De Kock 1954, 14). This legislation not only unified banking legislation for the Union of South Africa, but also provided for the establishment of the SARB. The powers of the SARB included a monopoly over banknote issuance (De Kock 1954, 23; Engelbrecht 1987, 95; SA Reserve Bank 1971, 11 and 12). The SARB commenced operations on 30 June 1921 (SA Reserve Bank 1971, 12). Its first banknote issuance to the public was on 19 April 1922 (SA Reserve Bank 1971, 22), with domestic commercial banks being instructed to cease issuing or re-issuing their own banknotes with effect from 30 June 1922.

When Smuts, the South African Prime Minister, appointed a committee to select the first Governor of the SARB, he selected only Britons, and the process was run entirely in the United Kingdom. Smuts asked Keynes to join the other committee members:10 Messrs Frederick Goodenough, Chairman of Barclays Bank (DCO), Arthur Gillett, a banker whose bank had been acquired by Barclays and a friend of Smuts,11 and Strakosch. Norman, at the Bank of England, was intimately involved. Norman’s first choice for the SARB governorship was Sir Ernest Harvey, the Chief Cashier of the Bank of England.12 When Harvey refused the appointment, Strakosch and Goodenough jointly signed a letter to Norman, expressing their desire to offer the position to Clegg, the Chief Accountant at the Bank of England. They asked Norman to approach him, and if Clegg was interested, to arrange for him to meet them at 11h30 the following day, ie 10 November 1920.13 Norman replied to Strakosch and Goodenough concerning the SARB that ‘I so fully realize the importance of this matter to the City of London and to the Empire that I am anxious to help in any manner you may desire’. Clegg agreed to accept the position and was appointed the SARB’s first Governor.

**Johannes Postmus and the SARB**

Johannes Postmus was born in the Netherlands and started his career in banking with the Dutch institution Lede Boer & Co in Almelo in the Netherlands. He joined the Nederlandsche Bank voor Zuid-Afrika in Pretoria in 1903, and was made a board member in

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9Keynes papers L/ST/156–161.
10Smuts Papers, National Archive, Vol 98 (renumbered 289 in the National Archive), number 297, letter from Smuts to Keynes dated 27 September 1920: ‘Gillett and his wife have been staying with me in South Africa for some time. He now returns with the ship that carries this letter.’ The letter requesting Keynes to be on the committee is of the same date: Smuts Papers, National Archive, Vol 98 (renumbered 289 in the National Archive), number 297.
11Smuts Papers, National Archives Pretoria, Originally Vol 22 (renumbered 206), 226. Arthur Gillett was a personal friend of Smuts and the husband of Smuts’ friend, Margaret Clark. Smuts was attracted to Margaret and her sister, Alice Clark, whom he knew from his period in Britain during the First World War (Schwartz 2011, 312). See also Smuts Papers, Vol 24 no.96.
12In a letter from Norman to Goodenough, Norman states that Harvey would like to meet with Goodenough to discuss the possible SARB appointment. Montagu Norman Papers, Bank of England Archives (hereafter BoE Archives), File G1/432. Letter from Norman to Goodenough dated 1 November 1920.
13Montagu Norman Papers, BoE Archives, File G1/432, Letter from Strakosch and Goodenough to Norman dated 9 November 1920.
1905. In a 1913 lecture on ‘Banks and Bankers’, Postmus, then Inspector of the Nederlandsche Bank, argued for the establishment of a central bank for South Africa, on the model of De Nederlandsche Bank BV and the Bank of Java (today the central bank of Indonesia) (Arndt 1928, 418). Postmus’s idea was for ‘State supervision of the Management, but no interference with the policy, as party politics should never enter into economic problems’ (Arndt 1928, 419). He pointed out what De Nederlandsche Bank BV in the Netherlands, and the Bank of Java in Batavia had achieved: ‘[c]heap money and fixity of rates are certainly two of the levers to uplift and encourage commerce and industry’ (Arndt 1928, 418). The model of a central bank that Postmus set out in 1913 was largely adopted in 1920, under the guidance of Strakosch.

Postmus was a non-executive director of the SARB, representing South African commercial banks, from 1921 until 30 June 1923 when this form of representation ended. He continued as a director of the Nederlandsche Bank until 3 March 1923. Dr Andries Bruwer had completed a Masters degree on South African monetary policy at Harvard University, and a PhD at the University of Pennsylvania before returning to South Africa in 1922. Postmus offered Bruwer (later Chairman of the Board of Trade and Industry) a post as his personal assistant. But Bruwer’s salary at Standard Bank was higher, and despite Postmus suggesting that he had ‘sold his soul to Standard Bank’, Bruwer continued with his Standard Bank job.14

Reintroduction and suspension of a fully convertible gold standard in South Africa

When the SARB assumed responsibility for the issuance of banknotes in 1922, the country was nominally on a gold standard but the convertibility of banknotes into gold had been suspended, and was only restored after the report of the Kemmerer Vissering Commission on the matter in 1925. The South African decision to reintroduce a fully convertible gold standard in 1925 was a political, rather than an economic, decision. The National Party and Labour Party that formed the Pact government in 1924 were both determined to return to the gold standard independently of Britain. Annoyed by the imported inflation from Britain during the 1914 to 1919 period (Ally 1994, 86), and eager to establish a currency that provided easier trade with the United States, the vast majority of National Party politicians and bureaucrats supported the reestablishment of a gold standard independent of Britain.15 The Pact Government in 1924 appointed Professor EW Kemmerer of Princeton University and Dr G Vissering, President of De Nederlandsche Bank to advise it on introducing a fully convertible gold standard.

14AJ Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, First batch of the memoirs of Dr AJ Bruwer, pp 19–20.
15This included almost all National Party politicians, including Prime Minister B Hertzog, the Finance Minister NC Havenga, and the economists, Dr JE Holloway, then Economic Professor at Transvaal College (later Pretoria University), Dr AJ Bruwer, Chairman of the Board of Trade and Industry, Dr MH de Kock, then director at the Board of Trade and Industries and later Governor of the SARB, (Kemmerer and Vissering 1925), and J Postmus, then Deputy Governor of the SARB who was in London when he was interviewed by Kemmerer and Vissering, on their way to South Africa (Edwin W Kemmerer Papers, Princeton University, Collection number MCI46, Box 216, Folder 2).
16EW Kemmerer (1875 to 1945) served as economic adviser to the governments of Bolivia, Chile, Colombia, China, Ecuador, Germany, Guatemala, Mexico, Peru, Philippines, Poland, South Africa, and Turkey. He favoured plans based on strong currencies backed by the gold standard. Drake (1989) calls Kemmerer ‘The Money Doctor’. A few authors describe Kemmerer as a one-man IMF of his time (see eg Fourcade 2014, 59).
The scholarly consensus on the 1931–1932 crisis now is that Britain’s dominance of world finance was dealt a fatal blow by Britain returning to the gold standard at pre-World War One parity. With her dwindling gold reserves, and the growing reserves of the Americans, Britain’s only hope of maintaining financial dominance was by continuing with the gold exchange standard. But this was a minority opinion in Britain in 1925. Keynes was one of the very few public figures who recognized what a disaster the return to the pre-war gold standard would be for Britain and other countries being drained of gold.

When Kemmerer arrived in England in November 1924 (on his way to South Africa), he met with Norman and Vissering. Vissering’s diary entry of 19 November 1924 noted that there was a general agreement to promote a gold exchange standard in South Africa. Kemmerer’s ‘Memorandum of the conversation, held at the Bank of England, between the Commissioners and the governor of the Bank of England, the 20th of November 1924’ makes no mention at all of the main purpose of the Kemmerer-Vissering Commission (ie an investigation into the gold standard), and instead notes some details on the SARB taking ‘a more active part in the South African banking business’ and the usefulness of having an ‘agency in London’.

From Norman’s correspondence with Clegg at the time, it is clear that Norman thought that he had an agreement with Vissering to maintain the gold exchange standard, reached before the meeting with both Commissioners in November 1924. Norman wrote to Clegg on 27 October 1924, saying that he was ‘grateful to him [Vissering] for having come straight to London and put his cards on the table’. Clegg was oblivious to what was coming when he wrote to Norman on 22 November 1924 that Edwin Kemmerer and Gerhard Vissering are ‘friendly disposed towards the Reserve Bank and towards yourself (Norman)’ and later that Kemmerer and Vissering are ‘both extremely pleasant men … Vissering is more silent – partly because of the language’. From his correspondence with Keynes and Norman it is clear that this was not true, as Vissering was thoroughly conversant in English and Kemmerer was not ‘friendly disposed’ towards the Bank of England.

De Cecco (1985, 47) is very clear about what was at stake, stating that the interwar period was ‘perhaps the high-noon of politicized international finance’. He goes on to observe that

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17See Eichengreen (1992), Ally (1994) and De Cecco (1985).
18Gerhard Vissering Papers, De Nederlandsche Bank, File 32.599, Sub-Folder entitled ‘Zuid-Afrika – Reis van President na Zuid-Afrika’, 17 November 1924–29 January 1925. Letter from Middleton to Vissering, dated 21 October 1924.
19Montagu Norman Papers, Bank of England, File OV37-21. Letter from Norman to Clegg dated 22 November 1924.
20Ibid. Letter from Clegg to Norman dated 31 December 1924.
21Montagu Norman Papers, Bank of England, File OV37-21. Letter from Clegg to Norman dated 22 November 1924.
22Ibid. and Gerard Vissering Papers, de Nederlandsche Bank Archives, File 22629.
23In Kemmerer’s unpublished memoirs he talks about a grudge that he held against the Bank of England as a result of being denied entry into the bank in 1914 on account of his German name, and the fact that he had just come from a holiday in Germany: Kemmerer Papers – unpublished biography, box 277, folder 5, p 98.
We can derive … the superficial conclusion that a high level of cooperation among British and American central bankers rendered the British return to gold (in 1925) possible … On the contrary, the return to gold can be seen as an important British defeat in the open fight for international financial supremacy American financiers and politicians engaged during and after the First World War. (De Cecco 1985, 50)

Through the unofficial work of Edwin Kemmerer, ‘the gold standard was adopted by several Latin American countries. But the really crucial victory was obtained when, upon Kemmerer’s advice, the Union of South Africa rejected sterling and adopted the gold standard’ (De Cecco 1985, 51).

On 20 November 1924, Kemmerer interviewed Postmus in private in London. Kemmerer recorded in his diary that Postmus was pro-gold. The following day, Postmus and Strakosch saw Kemmerer off at the train station in London, as he left to connect with the ship he and Vissering would take to Cape Town for their work on the Kemmerer Vissering Commission.25

Postmus managed to maintain his support for the positions of the National Party, including his support for South African’s return to the gold standard independently of Britain, while at the same time staying on good terms with the Bank of England. When Postmus was appointed Deputy Governor of the SARB in 1927, Montagu Norman commented to Clegg that Postmus’s appointment would ‘heal the wound inflicted by Mr Jor- rison’s departure’,26 and later that Postmus ‘has a loyalty complex towards you’.27

In the report to the OGM held in 1924, Clegg, as Governor, speaking about the reintroduction of a fully convertible gold standard, said that the SARB hopes ‘… we shall return … (to this) … at the earliest practicable moment …’ (SA Reserve Bank 1924, 7). And yet when Clegg appeared before the Kemmerer-Vissering Commission on 27 December 1924, he argued against South Africa returning to the gold standard independently of Britain. He claimed 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’ (Kemmerer and Vissering 1925, 309). Prophetically, Clegg warned that, if the South African currency was overvalued in this way, it would be particularly hard on ‘ordinary producers’ and ‘small farmers’ (Kemmerer and Vissering 1925, 310). Kemmerer responded that the losses of exporters would be made up by the gains of importers, and that the net effect would be neutral, but Clegg would not accept this. Speaking of Britain and South Africa, he claimed that when two countries dealt ‘exten- sively with each other … [the] stability [between their exchange rates] was worth the price that probably they had to pay in the form of instability in everything else’ (Kemmerer and Vissering 1925, 312).

This reflects the central message of Keynes’s (1923) Tract on Monetary Reform, in which he argued that if a country is faced with a choice between a monetary policy that suited internal balance (full employment of resources) and external balance (its exchange rate commitments with the rest of the world) it should choose to address internal balance. After being pushed by Kemmerer to propose a specific policy, Clegg suggested that the South African pound should follow sterling in the event of a devaluation of up to

25Kemmerer Papers, MC 146, Box 291, Folder, diary for 1933, entry for 20 November 1924 and 21 November 1924.
26Montagu Norman Papers, BoE Archives, file G1/432, letter from Norman to Clegg dated 4 January 1927.
27Montagu Norman Papers, BoE Archives, file G1/135, letter from Norman to Clegg dated 8 October 1931.
10% and maintain discretion thereafter (Kemmerer and Vissering 1925, 313). In an exchange of letters, commencing just before the Kemmerer Vissering Commission started interviewing witnesses in South Africa and ending after the commission, Clegg engaged Norman about the possibility of returning to a position at the Bank of England. Norman made no commitment, and Clegg pressed him, pointing out that no matter ‘how very much I like South Africa, I love England’.\textsuperscript{28} Norman tried to get Clegg appointed a Director of the Bank of England in the 1920s, ‘but had to wait until 1932 before his colleagues would agree’ (Sayers 1976b, Vol 2, 600).

The work of Kemmerer and Vissering culminated in the Kemmerer-Vissering report, which recommended South Africa’s return, independently from the UK, to a fully convertible gold standard (Kemmerer and Vissering 1925). The two commissioners were handsomely rewarded for their work, each having been paid (South African) £15,000 for three months work,\textsuperscript{29} at a time when the annual salary of the Governor of the SARB was £5000 per annum (Rossouw 2011). At the OGM in 1925, the Governor’s statement announced that ‘the great outstanding feature of the past year is the return of the British Commonwealth of Nations to the Gold Standard’ (SA Reserve Bank 1925, 14). Clegg added that ‘we may congratulate ourselves in at last again enjoying the incalculable blessings of a stable currency’ (SA Reserve Bank 1925, 14). These public statements of Clegg contradict his private views expressed to the Kemmerer-Vissering Commission, and elsewhere, as discussed above.

Based on the advice of the Kemmerer-Vissering report, the South African government reintroduced a fully convertible gold standard in May 1925. From this date until 1929, most sectors of the South African economy performed well (Feinstein 2005, 102, Table 5.2).

Britain had been applying pressure on its European trading partners and its dominions to wait until it was ready to return to gold before announcing their return. Sweden was the first European country to return to the gold standard, \textit{de facto} in 1922 and \textit{de jure} in 1924 (Eichengreen 1992, 191). Australia joined South Africa in signalling at the end of 1924 its intention to return to the gold standard, and did so with Britain in 1925. At Britain’s return to gold in 1925, most of the British Empire followed suit (Eichengreen 1992, 191–192). Canada was the exception. It returned to the gold standard on 1 July 1926, about a year after Britain. With gold flooding into the United States and Canada benefiting from its proximity, the United States and Canada experienced a boom in the late 1920s (Kindleberger 1973, 44). France set a \textit{de facto} rate at which the Franc was converted to gold in December 1926, and formalized it in June 1928 (Eichengreen 1992, 187). Unlike Britain, Italy, and Japan, who all attempted to strengthen the value of their currencies, France devalued substantially from pre-WWI levels, boosting exports and import-substituting industries. France enjoyed the boom of the second half of the 1920s; Britain, Italy, and Japan did not (Kindleberger 1973, 42–44).

\textsuperscript{28}Montagu Norman Papers, BoE Archives, File G1/432, Letter from Clegg to Norman dated 5 December 1925, letter from Norman to Clegg dated 30 January 1925 and letter from Clegg to Norman dated 20 February 1925.

\textsuperscript{29}Gerhard Vissering Papers, De Nederlandsche Bank, File 32.599, Sub-Folder entitled ‘Zuid-Afrika – Reis van President na Zuid-Afrika’, 17 November 24–29 January 25. Letter from Middleton to Vissering, dated 21 October 1924. ‘Professor Kemmerer has asked $15,000.00 and expenses and this has been agreed to. It would be desirable to have both fees the same.’
The 1931–1932 gold standard crisis and the roles of Clegg and Postmus therein

At the OGM of 1929, Clegg dealt with the question of whether the price of gold should be increased, but concluded that the price set by Newton in 1717 (£3 17 s. 10 d per ounce) should be retained (SA Reserve Bank 1929). Nevertheless, Clegg also pointed out that it is doubtful whether the world will ever again allow gold to be the absolute monarch in currency matters that it was in pre-war days … [t]he world asks … why … the whole credit policy of the nations should be governed by the supply of gold. (SA Reserve Bank 1929, 17, 18)

But storm clouds were brewing over the international economy. Wholesale prices, including those on agricultural and other primary products, fell substantially from the two months prior to the October 1929 New York Stock Exchange crash (Kindleberger 1984, 367–368). Following the collapse of Creditanstalt Bank in Austria and the increased likelihood of an international collapse in credit, Clegg telegrammed Norman on 6 August 1931, stating that ‘I notice slight tendency on the part of mining houses to avoid holding larger sterling balances than absolutely necessary. Can you give me any private reassuring message as to the position of sterling.’

On 7 August 1931, Ernest Harvey, by that time Deputy Governor of the Bank of England, telegrammed Clegg assuring him that ‘there can be no doubt as to London’s ability’ to maintain its position. In order to relieve Harvey of any worry about the correspondence reaching the public, Clegg sent him a handwritten letter, dated 12 August 1931, informing him that South African mining houses had been placing sterling balances with the SARB and stipulating that they must be repaid in South African currency. In this way, the mining houses transferred any possible currency risk between the British and South African pounds to the SARB. Emphasizing that he did not want to ‘show any hesitation in taking sterling’, Clegg pointed out that he would appreciate the advice of the Bank of England. Similarly, on 25 August 1931, Clegg sent a telegram to Norman, stating that ‘in view of our large sterling balances … I shall be greatly obliged by some advice as to the current position’.

Harvey responded with a telegram to Clegg on 27 August 1931, assuring him that the British government would defend sterling by cutting the dole by 10% to balance the budget and informed him confidentially of the American and French loans to support sterling. This was followed up with a further telegram two days later, informing Clegg of ‘large credits in New York and Paris which I trust will satisfy any Doubting Thomas’.

On 2 September 1931, Clegg sent Harvey another handwritten letter, apologizing for doubting the Bank of England’s ability to maintain the gold standard and again, in a typed letter, on 16 September 1931, requested Norman to ‘Kindly bear me in mind if any important development occurs in the position of sterling during the next month or two’. Despite this close and cooperative relationship between Clegg and the Bank of England, the Bank of England did not give Clegg any forewarning of their leaving the gold standard and simply announced the suspension of gold sales in a telegram to

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30 Montagu Norman Papers, BoE Archives, file G1/135, telegram from Clegg to Norman on 6 August 1931.
31 Ibid., telegram from Harvey to Clegg on 7 August 1931.
32 Ibid., letter from Clegg to Norman dated 12 August 1931.
33 Ibid., telegram from Clegg to Norman on 25 August 1931.
34 Ibid., telegram from Harvey to Clegg on 27 August 1931.
35 Ibid., Letter from Clegg to Harvey dated 2 September 1931.
Clegg on Sunday, 20 September 1931. Clegg wrote an angry letter to Norman on 23 September 1931 complaining that,

To say that I was thunderstruck is to use a mild metaphor ... I had taken your assurances as my gospel in these latter days and I have not allowed myself to think of such a thing happening as anything more than a particularly odious nightmare.\(^{36}\)

Despite the close relationship between Norman and Harvey at the Bank of England and Clegg, they deceived Clegg about the state of British reserves and financial health in September 1931. Close collegial bonds only went so far, and when the national interest came between these relationships and demanded that a choice be made, it was the British national interest that won out, and the personal relationship with Clegg was ignored. The theoretical underpinnings of Bank of England independence were set out in the Palmer Rule (Fetter 1965, 132–133, 145–146), but during the crisis of September 1931 the Bank of England behaved as a national institution of Britain.\(^{37}\)

Dr AJ Bruwer was a long-term critic of the SARB since the days he worked on his Masters degree in Harvard in 1921. Bruwer (at the time Chairman of the Board of Trade and Industry) noted that ‘As a result of Britain leaving the gold standard, the SARB lost capital of £1 million and half of his reserve fund, £800,000\(^{38}\), as the South African pound appreciated against the British pound after September 1931 and the sterling deposits of mining houses had to be repaid in South African pounds.

In its 50-year commemorative history published in 1971, the South African Reserve Bank noted that:

The Government’s decision to maintain the pound’s parity and to remain on the gold standard in the full classical sense of full convertibility of bank notes into gold, immediately resulted in a speculative outflow of capital from South Africa. As a result the Reserve Bank found itself forced to sell most of its sterling holdings in a matter of days, causing it to sustain an exchange loss on its sales of the depreciated sterling of roughly £1,5 million ... this loss was large enough to wipe out not only the Bank’s reserve fund and inner reserves but also some £400,000 of its capital. (SA Reserve Bank 1971, 26)

And yet Postmus, then the Deputy Governor of the SARB, who had visited Vissering at De Nederlandsche Bank BV in 1931 after the UK left the gold standard, was the author of an SARB statement that said ‘there is no reason apparent to the South African Reserve Bank why South Africa should go off the Gold Standard’ (Henry 1963, 242). The South African government’s decision to maintain the gold standard independently resulted in considerable domestic economic hardship as the South African pound increased in value against the British pound. Exporters (and in particular, exporters of farm produce) suffered severe hardship, as their exports could no longer compete in the UK market. At the same time, gold could be exported profitably from South Africa, thus draining capital reserves at the SARB.

\(^{36}\)Ibid., Letter from Clegg to Norman dated 23 September 1931.

\(^{37}\)The Palmer Rule stated that, at the point where the ‘circulation was “full” – that is, when the exchanges were just on the point of becoming unfavorable’ (Fetter 1965, 132) the Bank of England should maintain a gold reserve of one third of the bank notes in circulation. This rule was constructed to maintain international confidence in the Bank of England, and did not take into consideration the possibility that the British national real economy might need a bigger money supply than the rule allowed.

\(^{38}\)AJ Bruwer Papers, Archive for Contemporary Affairs, University of the Free State, PV667, Second batch of the memoirs of Dr AJ Bruwer, p 225 of Deel IV My Deelnameaan die Politiek.
Postmus happened to be visiting the Bank of England at the time of the August/September 1931 crisis. Following the collapse of the British gold standard and the devaluation of sterling, Postmus (in London) sent a telegram to Clegg (at the SAR) and asked, ‘can my speaking to Bankers here and to General Smuts do any good?’ Smuts was also in London at the time. The following day, by return telegram, Clegg authorized Postmus to speak to the banks, but not to Smuts, who was not in government at that time.

On 28 September 1931, Clegg received a shocking telegram from Postmus. Item 3 read, ‘As matters stand to-day I am afraid Barclays Bank DCO, Standard and ourselves [the SAR] are insolvent.’ Item 14 asked, ‘Have you shown Minister of Finance my cables?’ Item 15 read, ‘If not please do so and if it can strengthen your hand’. Postmus offered his resignation as Deputy Governor of the SAR. Postmus brought the dire position of the South African banks to Norman’s attention, and Norman telegrammed Clegg at 7.45pm on 28 September 1931. Referring to Postmus’s earlier telegram, Norman said,

I am persuaded that the three banks mentioned in paragraph 3 are insolvent according to the figures disclosed by Postmus. So your whole banking and financial position is in jeopardy. In order to avoid a crisis, I think assistance should be given by Union Government without delay. Before considering method or details this fact needs to be recognized. (Norman’s italics)

The following day, Clegg instructed Postmus to meet with the London representatives of the ‘two banks’, and on 30 September 1931 Postmus reported back, having met with Standard and Barclays separately, that their books are balancing ‘within narrow limits’. SAR loans ‘to the commercial banks and the government increased from £0.893 million in September 1931 to £8.434 million in March 1932’ (Kantor 1971, 76).

With capital draining from South Africa, the government put a proposal to Standard Bank and Barclays Bank that they should contribute a total of £5 million and the government £5 million to a sterling ‘pool’ to be available to the banks to meet a drain on the overvalued South African pound, at the time still on the gold standard (Henry 1963, 240). Standard and Barclays made their contribution, and the government wrote to Kemmerer, to ask him to facilitate a US loan. The once mighty Kemmerer was now powerless, and the South African government failed to raise their £5 million contribution to this ‘pool’ (Henry 1963, 240). In January 1932 Postmus, by then newly-appointed Governor of the SAR, released his statement from the SAR that ‘there is no reason apparent to the Reserve Bank why South Africa should go off the gold standard’ (Henry 1963, 242). Under Postmus, the SAR attempted to force the commercial banks to incur the exchange rate loss of bringing London reserves needed to meet the demands for foreign exchange to South Africa (Henry 1963, 243–244). In August 1932, the government sought to deflect anger at the hardship that had been caused by maintaining the gold standard, by holding an ‘Economic Conference’ to air grievances against the commercial banks.

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39 Montagu Norman Papers, BoE Archives, file G1/135 (Governor’s File on South Africa 12 April 1931–8 October 1931), telegram from Postmus at Bank of England to Clegg at SAR dated 26 September 1931.
40 Ibid., telegram from Clegg at SAR to Postmus at Bank of England dated 27 September 1931.
41 Ibid., telegram from Postmus at Bank of England to Clegg at SAR dated 28 September 1931.
42 Ibid., telegram from Postmus at Bank of England to Clegg at SAR dated 30 September 1931.
43 Kemmerer Papers, MC 146, Box 44, Folder 4, letter from Kemmerer to Eric Louw dated 14 January 1932, telegram from Louw to Kemmerer dated 18 November 1933, and from Kemmerer to Louw dated 19 January 1932.
The *Rand Daily Mail* journalist, and later editor, Arthur Barlow, was in Finance Minister NC Havenga's office just after Britain was forced off the gold standard in September 1931, when Clegg walked in.

I remember how strongly Clegg warned Havenga to follow Britain and abandon the gold standard ‘otherwise your farmers will have a miserable time’ he said. This warning did not seem to worry Havenga who, with Hertzog, was chewing the cud of Economic Independence’. (Barlow 1952, 236–237)

Minnaar (1990) shows that the South African government decision to remain on the gold standard in 1931 was particularly disastrous after ‘Australia abandoned the gold standard at the beginning of 1931’ (Minnaar 1990, 90). These adverse exchange rate conditions were made worse by a severe drought, which worsened by September 1932 (Minnaar 1990, 98) and was only relieved by good rains in November 1933 (Minnaar 1990, 102).

Twenty-five countries left the gold standard once Britain was forced off in September 1931 (Friedman and Schwartz 2008, 36). After the run on sterling in September 1931, there was a run on the yen, and Japan suspended convertibility on 17 December 1931. The Bank of Japan lowered interest rates and the Finance Minister, Korekiyo Takahashi, understanding the Keynesian multiplier, increased government spending each year by 20% in the years 1932, 1933, and 1934. Japan recovered substantially in this period (Kindleberger 1973, 163). China had maintained the silver standard throughout the 1920s and 1930s. Unlike gold, the price of silver fell during the Great Depression, providing a natural devaluation mechanism for the Chinese yuan. ‘The effect was to insulate Chinese internal economic conditions from the worldwide depression’ (Ben Bernanke in Friedman and Schwartz 2008, 238). The gold bloc, established by France, Belgium, the Netherlands, Switzerland, Italy, Poland, and Czechoslovakia remained on the gold standard after Britain and 25 other countries left it. Friedman and Schwartz (1963), Eichengreen (1992), Kindleberger (1973), and De Cecco (1985) all agree that these countries suffered economic hardship as a result of the decision to remain on gold when so much of the world had devalued. Czechoslovakia devalued in February 1934. Italy applied such strict exchange controls that its nominal commitment to the gold standard was meaningless. Belgium was forced off in March 1935. The last remaining members, France, Switzerland, and the Netherlands devalued in September 1936 (Eichengreen 1992, 357).

With the South African Reserve Bank having been set up under legislation written by Henry Strakosch, a close confidant of the Governor of the Bank of England, and with its first Governor, William Henry Clegg, coming from the Bank of England as its Chief Accountant and returning to be a director, the Bank of England did ‘enjoy a fair measure of success in keeping South Africa within the imperial economic system’ (Ally 1994, 100). But although South Africa was the first of the British colonies and dominions to get a central bank and a governor that was approved by Britain, she was not the last. Following the success of the SARB, the British set up the Reserve Bank of India (RBI), which commenced operating in 1935. The British authorities planned to ‘preserve what they regarded as their own legitimate interests … to ensure that the first governor of the RBI would be a person on whom the Bank of England could rely and of whom they could expect unquestioning cooperation’ (Deshmukh quoted in Chandavarkar 2000, 3050). The Australian banker Osborne Smith was first made managing director of the Imperial Bank in 1926, knighted for his service to banking in 1929 and finally appointed the first governor of the RBI in 1935 (Chandavarkar 2000, 3050).
'As an Australian, Smith did not have any political and social inhibitions in developing friendly contacts with the press and the Indian business community and in fact built up a unique rapport with Indians in general and more particularly the board of directors of the RBI' (Chandavarkar 2000, 3050). Smith was chosen for his post by Percy James Grigg, the finance member of the viceroy’s executive council from 1934 to 1939 (Chandavarkar 2000, 3048), after taking advice from Otto Niemeyer, adviser to the Bank of England (Chandavarkar 2000, 3051). Niemeyer was most anxious to avoid employing any economist trained at Cambridge under the influence of John Maynard Keynes (Chandavarkar 2000, 3051). Grigg complained to Samuel Findlater Steward, permanent undersecretary of state for India, that Smith would not take instructions from the finance member of the viceroy, and Steward responded to Grigg ‘that the thing will only work if the relations between the finance member and the governor are “cordial”; that is to say, the governor is prepared to play second fiddle’ which Smith was not prepared to do (Chandavarkar 2000, 3055). In later life, after Grigg had been a Tory Minister in Winston Churchill’s cabinet, he lamented to Otto Niemeyer in 1960 that ‘a central bank should be in the last resort free from coercion from the central government’ and ‘that the moment we [Britain] got a government of the Left the central bank would become a branch of the Treasury’ (Boyle 1967, 206). And yet when he was the government official and Smith was the governor of the RBI, and Smith lowered interest rates without Grigg’s permission, this set the stage for Smith to be forced out as governor (Chandavarkar 2000, 3055–3057). When Smith took Mrs Allen, the wife of the manager of the RBI Calcutta office with him on a ship to Europe, the stage was set for ‘conduct unbecoming’ charges to be added to Smith’s interest rate ‘crimes’, and Montagu Norman finally announced to Grigg in August 1936 that Smith would take leave in February 1937 ‘preparatory to his final retirement on June 30, 1937’ (letter from Norman to Grigg 17 August 1936 quoted in Chandavarkar 2000, 3058). Chandavarkar (2000) goes on to show that at no point were any of central banker competencies of Smith questioned in the correspondence and that Grigg ‘was guilty of pursuing a relentless and venomous vendetta against Smith ever since he assumed office as governor, breaching all proper channels of communication’ (Chandavarkar 2000, 3059). The experience and fate of the first governor of the RBI is in stark contrast to those of the first two governors of the SARB. Clegg led the SARB without upsetting the monetary policy objectives of the Bank of England. To the extent that Postmus differed from the policy preferred by the Bank of England, he did so to support the policy preference of his government in South Africa, and hence enjoyed a long central banking career. Smith in India was sympathetic to Indian business, at a time of British imperialist rule. Clegg was rewarded with a directorship of the Bank of England, Smith was dismissed for disloyalty to it.

Clegg returns to England, and Postmus is appointed Governor of the SARB

At the end of 1931, Clegg finally got his wish and returned to England where he was made an Executive Director of the Bank of England in 1932. Clegg had maintained the position that the South African currency should be linked to sterling from his appointment as Governor of the SARB in 1921 onwards, and he had seen his warnings about independently adopting the gold standard realized. Clegg took a position on monetary policy that suited Britain, but was also good for South African farmers. Postmus, the Governor that followed
him, took a position in favour of the gold standard, despite his witnessing the disaster when Britain was forced off the standard first-hand. Postmus had long been an advocate for a central bank and the adoption of a fully convertible gold standard.

Postmus submitted a paper to the parliamentary Select Committee on the Gold Standard question in March 1932. In it, he used the same argument that John Locke had presented to parliament in 1695. Postmus stated that ‘interference with the measure can never make your cloth longer or the surface of your table greater, and that creating bad money will never create better business, but the reverse’ (quoted in De Kock 1954, 155).

Senator CJ Langenhoven, a member of the ruling Pact government, published an undated pamphlet on the gold standard question, with the title Goud of Papier (Gold or Paper) (Langenhoven n.d.). He was one of the few National Party representatives outside the Treasury to take a great interest in the gold standard question. As could be expected from a Senator of the governing party which supported the gold standard, Langenhoven reached the conclusion that South Africa should retain the gold standard. Langenhoven (n.d., 36) highlights three alternatives available to the government in the event of leaving the gold standard, ie (i) independent floating of the exchange rate; (ii) depreciation of the exchange rate to some agreed level lower than the prevailing gold standard peg; or (iii) fixing to the UK pound. Langenhoven’s second option implied the pegging of the currency at a higher gold price (ie a lower currency value vis-à-vis gold).

On 28 December 1932, the SARB attempted to get gold producers to agree to sell their gold at the official price, which was now below the international market price, but the producers refused. The following day the banks met to fix rates, but the SARB did not participate, and at 9 am the government announced that it had suspended the gold standard (Henry 1963, 248).

At the OGM of 1932, Postmus, now the Governor, stated that ‘Great Britain was forced off gold after a heroic battle … but similar forces were absent from the position in South Africa … it seemed unreasonable … to take similar action … until circumstances became as pressing as they had been in Great Britain ….’ (SA Reserve Bank 1932, 2). The Governor explained that the South African Government decided to maintain a fully convertible gold standard and that the SARB supported this policy (SA Reserve Bank 1932, 2). The matter of substantial losses of the SARB and the unhappiness of stockholders (as shareholders were called) were also dealt with extensively at this meeting.

At the OGM of 1933, the Deputy Governor (Dr MH de Kock, who became Governor in 1945), who chaired the meeting in the Governor’s absence, reported on the matter of the suspension of the convertible gold standard (SA Reserve Bank 1933, 3). The SARB and the main South African commercial banks approached the South African government on 27 December 1932 with a request that they either ‘relieve the Reserve Bank of its obligation to redeem its notes in gold coin’ or introduce a regulated gold standard (SA Reserve Bank 1933, 3).

Footnotes:
44Langenhoven, a National Party Senator, was a well-known Afrikaans author and poet. Among other things, he wrote the Afrikaans section of the National Anthem. Langenhoven also served on the Parliamentary Select Committee that considered the Currency and Banking Bill that culminated in the Currency and Banking Act, No 31 of 1920 (Rossouw 2011). Langenhoven therefore had some economic and financial insight, although he had trained as a lawyer.
45It is clear from the pamphlet’s argument that it was written and published between September 1931, when the UK left the gold standard, and July 1932, when Langenhoven passed away.
46A regulated gold standard is a system under which the price of gold is allowed to fluctuate, based on forces of demand and supply.
Bank 1933, 3). The Government chose the first option, as the second was not considered viable.

Parliament was due to reconvene early in 1933, and in the interim the domestic currency was left to find its own level in the foreign exchange market, that is, a freely floating exchange rate as given in Langenhoven’s first alternative. Early in March 1933, Parliament passed the Currency and Exchanges Act, which linked the value of the domestic currency to the British pound sterling, Langenhoven’s third alternative.

On 29 December 1932 South Africa merely suspended the convertibility of banknotes for gold (commonly known as being forced off the gold standard), but the SARB still had to hold gold against banknotes in circulation and against other liabilities. The Currency and Banking Act of 1920 (Union of South Africa 1920) stipulated in Section 15(1)(a) that the SARB should hold gold to an amount equal to not less than 40% of its banknotes in circulation. This was reduced to 30% in 1933 (Union of South Africa 1933; see also SA Reserve Bank 1971), and still further to 25% when the SA Reserve Bank Act of 1944 was promulgated (Union of South Africa 1944). The requirement for the SARB to hold gold against banknotes in circulation or against other liabilities was suspended by regulation in 1977 and abolished in 1989 (Republic of South Africa 1989).

Conclusion

In this paper we have sought to set the previously unpublished private thoughts and communications of the first two Governors of the SARB on monetary policy, in the context of a British Empire centred on London and a South Africa seeking independence from it. We have avoided an apolitical reading which considers fidelity to monetary theory. Instead we have attempted to consider the thoughts and actions of the first two Governors in the context of a still powerful but fading British hegemon, and its monetary policy instrument, the Bank of England. We have also considered the influence of the South African governments at the time of the monetary crises in 1919–1920 and 1931–1932.

Keynes was acutely aware of the need for policy to fit economic and political reality, and not vice versa. All of his pre-1936 books on monetary matters were written at the time of specific enquiries into the economic problems of the day.47 In chapter 23 of the General Theory, Keynes (1936) acknowledged the need for theory to fit reality, and not the other way around. Keynes made the case for a central bank for India in Indian Currency and Finance (1913), but he feared that too many vested interests would lobby against the establishment of such an institution, and it would take a crisis for it to be established. He argued that

Banks fear a possible rival; merchants are content with present prosperity; and no one else knows anything about it. I shall be astonished, therefore, if action is taken while times are good. Perhaps we may have to wait for the lessons of a severe crisis. Only under some

47The Royal Commission on the subject of Indian Currency and Finance (1913) ‘had already been taking evidence for a month’ by the time of publication of Keynes (1913), and its chairman read it approvingly (Skidelsky 1983, 277–278). Skidelsky (1992, 173–175) deals with Keynes’s monetary policy activism at the time of the Tract on Monetary Reform (Keynes 1923). Keynes used many of his arguments that would later appear in the Treatise on Money (Keynes 1930), in the MacMillan Committee of 1930, of which he was a member (Skidelsky 1992, 343–347).
such strong influence as this is it likely that the responsible Government will nerve itself to the

task, or the business community acquiesce in it. (Keynes 1913, 239)

It was a gold standard crisis that started with the devaluation of sterling that created the

SARB in 1920, and another gold standard crisis following the devaluation of sterling in

September 1931 that caused South Africa to abandon the gold standard at the end of

1932. Thanks to these two crises, South Africa gained in its central bank an institution

which has prevented any systemic banking crises for a century since its founding.

Thanks to the abandonment of the gold standard, South Africa avoided the shrinking

of money supply that it experienced in 1919–1920 and the collapse in sales of agricultural

products from September 1931 to December 1932.48

The SARB was founded as a part of a strategy by the Bank of England and the British

Treasury to get South Africa to abandon any plan to establish a gold standard indepen-

dently of Britain, and to maintain its ties with sterling. The SARB’s first Governor, Clegg,

was committed to this policy, but its second Governor, Postmus, had other ideas,

perhaps seeing a gold standard independent of Britain as a part of a greater indepen-

dence for South Africa. While Clegg was committed to a tie with sterling, Postmus main-

tained his support for a gold standard independent of Britain. But his insistence on

maintaining an overvalued currency in order to honour the commitment to the gold stan-

dard was contrary to his good intentions for a central bank in 1913. As Arndt (1928, 418)

put it ‘[c]heap money and fixity of rates’ had been sacrificed on the ‘Cross of Gold’.

While sovereignty and national development are laudable goals, the experience of

Clegg and Postmus points to the lesson that a passion for sovereignty and national devel-

opment does not mean that they will be achieved. In their passionate nationalism, both

Postmus and the government whose policy he supported harmed South African farmers

and industry. And despite his longing to return to England, Clegg argued for a monetary

policy that supported South African farmers and industry. Fighting inflation and support-

ing development in the first 11 years of the SARB required the wise application of discre-

tion. Doctrinaire ideology was as much a stumbling block then as it is now. This should be

a lesson for reserve bankers in all generations.

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48For an account of the drain of money out of the banking system, and out of South Africa in the 1919–1920 period see

Henry (1963, 178–186). For an account of the impact of maintaining the gold standard in 1931 and 1932 see Minnaar

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Personal Interview

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