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RECAP

INCONVERTIBLE PAPER MONEY.

A REVIEW OF SOME OF THE CURRENCY AND
FINANCIAL EPISODES IN THE HISTORY
OF SOUTH AFRICA.

BY J. R. K. BARKER.

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PREFACE.

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When this paper on "Inconvertible Paper Money" was originally written in August, 1906—nearly fourteen years ago—the subject was chosen by me as forming an interesting part of my exhaustive studies of banking and banking history and currency problems, with particular reference to South Africa. The investigation was undertaken with the sole object of studying the subject for its own sake, and on its merits, without any preconceived notions, and with no intention of promoting any sectional interest. The subject was not then one of general public discussion, or of practical politics, to use the current expression, but was purely of academic interest.

This is not, however, the position to-day. On the contrary, when suggestions are being made by certain individuals in very responsible positions that the Union of South Africa should deliberately, and in a light-hearted manner, adopt an Inconvertible Paper Currency, it is eminently desirable that the former bitter and disastrous experiences of such a pernicious form of currency by what are now component parts of the Union—Cape Colony, the Orange Free State, and the Transvaal, or South African Republic—should be brought under public review, and be carefully studied. It has to be borne in mind that you cannot fictitiously manipulate the currency without, sooner or later, paying a heavy penalty.

During the period of thirty-seven years between 1793 and 1830, Inconvertible Paper Money, which was a legal tender, was freely issued in the Cape Colony, producing a prolific crop of financial, currency, and commercial disasters in the country. Indeed, this lengthy period may be characterized as one of continuous depression, incessant discontent and dire distress, and which probably has no parallel in South African history.

The Orange Free State and the Transvaal suffered in a similar manner at a later period.

In deference to a strongly-expressed desire, the paper is now reproduced in pamphlet form.

The evil results of Inconvertible Paper Money are herein treated solely from the point of view of South Africa's previous bitter and disastrous experiences in this connection, though the principles that underlie the vicious system are of universal application, and are pitiless in their operation. Mr. J. W. Jagger, South Africa's premier merchant and financial authority, fully realizes all this, and has been foremost—faithful amongst the faithless—in advocating a sound currency on a convertible basis.

J. R. K. BARKER.

CAPE TOWN, 25TH MARCH, 1920.



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INCONVERTIBLE PAPER MONEY.

A REVIEW OF SOME OF THE CURRENCY AND FINANCIAL EPISODES
IN THE HISTORY OF SOUTH AFRICA.

By J. R. K. BARKER,
Associate of the Institutes of Bankers, London and South Africa.

*Being a lecture delivered at a meeting of the Institute of Bankers
in South Africa, held in the Masonic Hall, Johannesburg, on
the 22nd August, 1906.*

MR. W. W. CALDER IN THE CHAIR.

The Chairman, in introducing the lecturer, said that Mr. Barker, who was an Associate of the London Institute of Bankers, and also an Associate of the Institute of Bankers in South Africa, had devoted much time and care to the study of banking and banking history, and when asked to contribute a paper, his only difficulty was as to what subject would be at the same time interesting and useful. He thought Mr. Barker had chosen a very suitable subject, as many facts and points which must be of great interest to all men connected with financial matters, with many of which a number of men were too little acquainted, would no doubt be brought most lucidly before them. South Africa had contributed its share to the issue of inconconvertible paper money, and the story of the circumstances connected with such issues could not fail to be interesting.

Mr. Barker then read his paper on—

INCONVERTIBLE PAPER MONEY.

I.—CAPE COLONY.

Many are the problems that to-day confront South Africa—social, political, economic and financial. It is singular what a close resemblance our present-day problems, in their general characteristics, present to those of long ago—the good old days, as some people are inclined to regard them.

While the Cape was still under the despotic rule of the Dutch East India Company—a commercial body—the inhabitants of Cape Town and the country districts were, about 1792, loud in their complaints against the policy of the grandmotherly old Company, and of the rigorous manner in which they, the sturdy burghers, were being governed and despoiled by extortionate taxes and vexatious restrictions upon trade. Great abuses existed. These had insidiously been introduced, and were being adroitly exploited for the benefit of the privileged few associated with the administration of the grasping Company, whose *raison d'être* was to make a profit on its trading operations. There was general and continued dissatisfaction amongst the colonists; agitation, though sternly repressed, was rampant; a feeling of unrest pervaded the entire populace. To add to the misfortunes of the hapless colonists, the garrison, through motives of economy and the exigencies of the service, had been reduced. This would appear to have been the last financial straw added to the intolerable load of abuses and injustice borne by the long-suffering people. Trade had for some time previously languished; but, as the result of the shameful and regrettable reduction of the garrison, apparently resented by the populace as a personal grievance, an almost total cessation of business ensued, culminating in great distress becoming prevalent. What a striking resemblance to our present-day commercial and financial conditions!

The policy of the gradual withdrawal of the Imperial garrison from South Africa to-day, which is in course of being carried out, is, by a peculiar coincidence, also one of the many actual points of resemblance in our contemporary conditions as compared with those of the former period of upwards of a century ago.

The clamour of the populace at last reached the ears of the directors of the Company in Holland. The cry was too insistent, and could not safely be ignored. The colonists were practically in a state of rebellion. The directors, though tardily, realized that the position was desperate, and took such action as was deemed fitting and necessary. Truth to tell, they adopted a very wise course—a course which, in the subsequent history of South Africa, has, under diverse conditions, frequently been followed with advantage and distinction, though sometimes the reverse has been the result. The directors appointed a commission. Now, a commission is all very well in its way; but

the success of a commission largely depends upon its *personnel*, and also upon the manner in which its recommendations are carried out. The directors were happy in their choice of the two of the four persons appointed as commissioners, viz., Messrs. Nederburgh and Frykenius, who visited South Africa, arriving on the 18th June, 1792, at Simon's Bay. The other two members were engaged in their mission elsewhere, and thus do not come under our review. The four commissioners were appointed to examine minutely into the affairs of the Dutch East India Company, at the Cape and in the East Indies generally. They were empowered to check further abuses; to investigate closely the causes of the continued dissatisfaction of the colonists; and to settle all reasonable complaints. The task of our two commissioners was no easy one. It was, however, undertaken in a courageous manner; conducted, on the whole, with discretion and marked ability; and completed after a patient and careful investigation. [On their arrival they found the Cape in the slough of despond referred to above. [The supreme remedy that suggested itself to their judgment was intended to be of a two-fold nature. On the one hand they were compelled by their instructions (and were at the same time, no doubt, sincerely desirous) to relieve the severe existing distress. But while doing so, they dare not, on the other hand, entrench upon the public purse—that is of the Company, their masters. Rather they must endeavour, while relieving the dire distress, to concurrently increase the revenue. A hopeless task, considering the methods adopted; a frantic and futile attempt to square the financial circle. In this respect our two commissioners allowed their zeal to outrun their discretion. Their deliberate decision was essentially the result of a compromise between their duty to their masters—the directors of the Company—and their natural desire to ameliorate the desperate condition of the distressed and harassed colonists.

One of the economic and currency heresies of that period was a blind, unbounded belief in the potency and efficacy of inconvertible paper money. Whenever financial difficulties arose, the popular manner of obtaining relief was by issuing notes, and, if need be, more notes, and thus deferring indefinitely the day of reckoning. Nearly all civilized nations (paper money is one of the resources of civilization) have, at one or other period of their history, had recourse to this, the most barren and hopeless mode of filling up a financial aching void that the ingenuity

of man could devise. It is not surprising, therefore, to learn that our two commissioners, in March, 1793, that is about nine months after their arrival at the Cape, established the

LOMBARD OR LOAN BANK.

But on what basis? By the issue of what may relatively be regarded as a large amount of inconvertible paper notes, or "cartoon money," as it was popularly designated. By a stroke of the pen, a large quantity of inherently valueless paper was made to represent certain amounts, the different denominations of value being stamped on the face of the "money" thus easily created, which was declared to be a legal tender. This "cartoon money" was issued through the Lombard or Loan Bank to such applicants as were able to offer sufficient security for the loan. Fundamentally vicious and economically unsound as is the issue of inconvertible paper money, the conditions under which the advances were made were characterized by prudence and sound business principles. In the case of property situated in town, an advance was made to the amount of one-half of the assessed value of the property mortgaged; while as regards property in the country, a loan was permitted equal to two-thirds of the appraisement of the property. It was necessary, as collateral security, to obtain two persons of substantial means to pledge themselves for the due repayment of the loan. The amount of this "cartoon money" issued was (according to Theal) £135,473. The avowed object the commissioners had in view in founding the Lombard or Loan Bank is tersely expressed in the following words:—"to the relief of the public, and for the purpose of checking those usurious transactions which naturally accompany a currency insufficient for the commercial and home transactions of any society." The bank was under the direction of a President, two commissioners, a cashier and a bookkeeper. The commissioners were authorized "to lend money at 5 per cent., payable by the borrowers yearly, on mortgage of houses and lands, gold, silver, jewels and merchandise, or other articles that can 'lie still' for 18 months, not longer." Essentially a mortgage Bank, it will be observed. As a result of the establishment of the Bank, which under all the circumstances was a desperate and a dangerous expedient, a *temporary* relief from the assiduous attentions of their creditors and from their financial embarrassments was obtained by several landed proprietors. But the evil day was only deferred for a season, as the final

reckoning had still to be faced and effected. The ultimate result of the practically unlimited forced circulation of inconvertible "cartoon money" was an inevitable aggravation of the general distress. One cannot with impunity indulge in actions that disregard the fundamental laws of political economy as regards finance; nor fictitiously manipulate the currency without sooner or later paying a heavy penalty.

It is beside our present purpose to attempt a detailed history of the Lombard or Loan Bank. Our object is merely to give illustrations from the history of South Africa, as briefly as the circumstances permit, shewing that a bank founded upon the basis of inconvertible paper notes is fundamentally vicious and economically unsound. Therefore, only the incidents in the career of the Bank that throw a lurid light upon this aspect of the subject will be referred to.

It must not be assumed that the desperate and dangerous action of our two commissioners, in issuing £135,473 worth of inconvertible "cartoon money," was the first essay of the Dutch East India Company in this troublous region of finance. It would rather appear to have been a development of the former currency expedients of the Company, whose financial straits, towards the close of their *régime*, were largely responsible for the dire distress of the colonists about 1792. In the prosecution of their trading operations, which were chiefly conducted by barter, the Company, as a necessary provision against the chronic scarcity of silver or gold coins, had recourse to the issue of their own notes, which were presumably inconvertible. The writer recently inspected, in the Museum at Capetown, one of the Company's Cape of Good Hope Notes, No. 111, for 25 Rex drs., the date being 1787—that is, five years before the visit of our commissioners. This emergency issue was of a comparatively large amount.

The paper rix-dollar was originally created in 1781. It was issued under a promise of redemption, as soon as circumstances should permit, and it was declared to be equivalent in value to something more than four shillings sterling. The first issue was paid off punctually.

Our two commissioners, in establishing the Lombard or Loan Bank on a basis of inconvertible paper currency, were giving an example of the greatest achievement of high finance, as understood in those days. They were endeavouring to enable the Company to take advantage to the full—even to a

dangerous extent—of whatever credit the Company enjoyed. The Company, it should be remembered, possessed an exclusive monopoly of trade and finance. This overstraining by the Company of its credit, and especially in such a manner, was bound to have pernicious effects. Further issues of inconvertible “cartoon money” were subsequently freely made. The notes, being *unsecured*, soon greatly depreciated in value. Such was the distressful position when, in September, 1795—two years subsequently—the Dutch capitulated to the British forces under General Craig. This event put a final period to the rule of the Dutch East India Company in South Africa.

The British officials promptly assured the face value of the depreciated “cartoon money” by hypothecating the public domain and the buildings thereon as security for the notes, which soon caused them to assume par value. The amount of paper notes in circulation at this time would appear to have been 611,276 rix-dollars, which was exclusive of the capital in the Lombard Bank of 680,000 Rds.

During the temporary British occupation, the monopoly in trade was also abolished and other salutary changes made. The brief British *régime*, though characterized by the remedial measures referred to, and which largely promoted the public weal, was a period of trouble and difficulty, as the colonists would seem, during the period, to have been in a chronic state of rebellion. When, eight years later—1803—the Cape was restored to the Dutch at the Peace of Amiens, two million rix-dollar notes were in circulation, *and in good credit*.

The Batavian Republic ruled the Cape from 1803 to 1806. One of their first acts was to cancel the security upon which the paper currency was based during the British *régime*. The result was that the “cartoon money” was soon at a heavy discount, which of necessity entailed great loss upon the settlers.

In 1806 the Cape became a British Colony. The large amount of 2,300,000 rix-dollar notes found to be current were very much depreciated in value. The Lombard or Loan Bank, notwithstanding that it enjoyed State support and had an exclusive monopoly, was ascertained, in 1808, to be in a most unsatisfactory position. The Earl of Caledon, the first Civil Governor, a humane and conciliatory man, promoted in many ways the interests of the settlers; established circuit courts; opened up postal communication with the inland districts; abolished the slave trade; and did much to render life more tolerable to the

miserable Hottentots. But there is a further achievement to record, which, though well intentioned, does not enhance his reputation as an able financier or sound economist. He was a believer in inconvertible paper money. The Earl entered upon his term of high and difficult office—the Governorship of the Cape has invariably been a difficult post—on the 22nd May, 1807, and was apparently much grieved to find that great general distress prevailed. An inspection of the Lombard or Loan Bank disclosed the condition of affairs as almost desperate. The vicious expedient of our two commissioners, in establishing the Bank on a basis of inconvertible paper money, had not proved—it was impossible it should prove—to be the financial panacea that its authors had optimistically hoped for, and honestly intended should be the result of their supreme efforts. Notwithstanding the clear demonstration of the futility of such financial expedients, the worthy Earl proceeded to emulate the achievement of 1793 of our two commissioners, and to make confusion worse confounded by creating, in 1808, a subsidiary State Bank known as the

GOVERNMENT DISCOUNT BANK,

which was also based on a further issue of inconvertible paper money, the capital being the sum of one hundred thousand rix-dollars.

All public moneys were lodged with this new banking bantling. Its kindly but mistaken sponsor evidently was of opinion that all that was required was to call in the aid of more credit-creating instruments, in the form of inconvertible paper notes or “cartoon money,” and that, when the dark clouds of depression had rolled by and there was a return to prosperous times, all would be well. Another instance of burying one’s head in the sands of expediency and thus blinding oneself to the threatening aspect of affairs and the dangers ahead. The Earl and his advisers were evidently shrewd enough to see that the time had come to somewhat vary the mode of operations. The aggregate of the issue of “cartoon money” by the Lombard or Loan Bank had assumed gigantic proportions. It was therefore evidently deemed advisable to have a sort of reconstruction of the existing institution. An auxiliary organization was brought into existence in the form of the Discount Bank. The name implies that the operations of the new establishment were in a special manner to extend to trade, and thus assist the com-

mercial transactions of the colonists. The Discount Bank was under the same management as the Lombard or Loan Bank; it was permitted to receive deposits; and its rates of interest were regulated by statute. The charge on advances was 6 per cent., while on deposits for a year, or longer, 5 per cent. was allowed. On such a slender margin, between the borrowing and lending rates, profitable banking was impossible. The results were proportionately disappointing. It is stated that between the years 1810 and 1814 a further million of rix-dollar notes were given a forced circulation.

Lord Charles Somerset, the autocratic British Governor, subsequently had a hand in regulating the affairs of the Discount Bank, and also arranging for further issues of inconvertible paper money. The grand result was that, in 1822, there were about three million rix-dollar notes in circulation, which had immensely depreciated. It is on record that the value of the rix-dollar note gradually fell from 4s. in 1806 to 1s. 6d. in 1824, entailing heavy losses upon the hapless colonists.

In 1825 Lord Charles Somerset issued a Proclamation declaring that His Britannic Majesty had determined to establish the British currency as the circulating medium of all the Colonial possessions of the Crown; and stated that the Governor had in consequence issued the necessary instructions that a table or scale should be printed forthwith, specifying the relative value of the paper rix-dollar, and of all the lesser proportions thereof, with British money, in order to regulate the payment of the established Government fees, etc. This Proclamation was evidently intended to introduce the British currency, although nothing was ever done to introduce the precious metals.

Arising out of the above Proclamation of 1825, the legal value of the rix-dollar note was fixed at 1s. 6d. This represented the Cape dollar.

As a necessary corollary to the introduction of the British currency, provision required to be made for the withdrawal of the existing rix-dollar paper money, which was not only inconvertible, but also redundant. Hence the immense depreciation. The Cape Government finances were not in a sufficiently flourishing condition as to bear such a severe strain; and as the Home Government was not disposed to take the grievous financial burden upon its own shoulders, it was found to be expedient that the latter should send out a supply of new *sterling* promissory notes, which were also inconvertible, wherewith to retire

the old rix-dollar notes or "cartoon money." This was accordingly done: and the paper currency at the Cape "emerged from its chrysalis rix-dollar state into the butterfly form of sterling promissory notes."

The immensely depreciated, redundant, inconvertible paper money constituted in the past, and remained for many years, a terrible incubus upon the trade and finances of the Cape. The pernicious seeds, originally sown by our two commissioners in 1793, again by the Earl of Caledon in 1808, subsequently by Lord Charles Somerset during his term of office, and intermittently till, at all events, 1830—a period of 37 years—produced a prolific crop of financial, currency and commercial disasters at the Cape. Indeed, this lengthy period may be characterized as one of continuous depression, incessant discontent and dire distress, and which probably has no parallel in South African history.

It would appear that the immensely depreciated, redundant, inconvertible paper money was called in by Proclamation in 1830. But this official act was evidently merely the expression of a pious resolve to carry out, at some future and more convenient season, such an essentially utopian achievement of finance, considering all the surrounding circumstances. Such, at any rate, was the practical result. For we find that in 1840—ten years subsequently—and also in 1841, and again two years later, the subject of the paper currency received the serious attention of the Members of the Cape Legislative Council, and gave rise to animated and powerful debates in which the matter was treated in an able, exhaustive and eloquent manner. The whole populace had borne the grievous burden of the forced paper currency for an almost interminable period; and it is little wonder that a strong and sustained agitation was set on foot, having for its object the complete and final withdrawal of the inconvertible paper money. The agitation, in itself wholly legitimate and justifiable, was characterized by a most remarkable unanimity of aim and concerted action on the part of the colonists of both British and Dutch descent. The most prominent of the former was Mr. John Bardwell Ebdon, a cultured gentleman, an intellectual giant, a man of marked sagacity and business ability. In a greater degree than any other colonist of his day he promoted the true progress and prosperity of South Africa. Amongst other members of the Legislative Council who were prominently identified with the agitation were Mr. Hamilton Ross and Mr.

Advocate Cloete, both earnest and able men. The Hon. William Porter, the Attorney-General, the most eloquent, high-principled, philanthropic and disinterested individual that ever resided in South Africa, was naturally called upon to defend the actions of the Government in regard to the paper currency. It would be doing despite to the memory of Mr. Porter were it not made quite clear that he discharged his responsible brief in no servile spirit. He was conspicuous for his independence of thought and action. He sometimes, when compelled by conscientious convictions, opposed the prevailing views of the Council, and was not afraid to be found in a minority; he had the temerity to disagree with the opinions of the Governor, even on matters of great import. But he was ever courteous, and always gave a valid reason for the faith that was in him. The debates in the Council on the paper currency practically resolved themselves into an intellectual duel between the Attorney-General and Mr. Ebden. Mr. Porter's intellect had, as he remarked of Adam Smith, been braced and strengthened by a long-continued course of metaphysical gymnastics. He was not only a disciple of the metaphysicians who laid the foundations of the science of Political Economy; but a fervent and distinguished apostle who could philosophically propound the teachings of his masters—Locke, “the first in Europe who wrote rationally about money,” and Adam Smith, whose “Wealth of Nations” influenced the whole commercial legislation of his own and subsequent ages.

Mr. Porter's general attitude towards the Government inconvertible paper currency is clearly indicated by the following extract from his speech in the Legislative Council, on the 24th August, 1840, when the subject was being debated: “I wish to say that, with scarcely any modification, I adopt the general propositions which have been advocated by my hon. friend (Mr. J. B. Ebden); but I conceive that those general propositions, though very true, bear but slightly upon the immediate question now before the Committee.. That question is not whether our existing currency is the best imaginable currency, but whether it is not desirable, in the present state of the Colony, to employ some £50,000 or £60,000 in public works, rather than to employ that sum in the destruction of the same amount in paper money.” (The construction of a hard road over the Cape Flats, and also of a hard road along the whole line from Cape-town to Grahamstown, was at that time under discussion.)

Mr. Ebden was not inferior in his profound knowledge of

the principles of currency and finance, nor in his ability to expound the doctrines of the classical Political Economists, than his distinguished opponent. Both were eloquent; Mr. Porter's keenly legal mind, always pitilessly logical, was more subtle, and his speeches reached a higher level of fervent oratory. To say so is no disparagement of Mr. Ebden, who was eminently able to hold his own in debate. The final comparison may be summed up by saying that Mr. Porter was essentially the lawyer and the metaphysician; while Mr. Ebden was the practical business man with a strong philosophical prepossession. Verily two doughty champions of the popular cause. Their labours ended long ago, but their works live after them. May their ashes rest in peace!

As the result of the agitation for the complete and final withdrawal of the inconvertible paper money, assisted no doubt by the establishment of two Joint Stock Banks in Capetown, and the gradually improving commercial and financial conditions of the Cape, the monopoly of the Lombard and Discount Bank, requiring the compulsory lodgment of Government and other funds with the Bank, was withdrawn by Ordinance No. 5 of 1842. The revenue of the Bank was derived, as we have previously seen, from interest upon the considerable issue of inconvertible paper money lent, and also from the discount on bills.

The Colonists did not content themselves with merely agitating. They were made of sterner stuff. They adopted practical measures. Their sustained representations and most cogent arguments produced little or no relief, or amelioration of the financial position. So they, with great tenacity of purpose and not without considerable difficulty, established public banks on the joint stock principle. The premier institution was the Cape of Good Hope Bank, founded in 1836 by Mr. J. B. Ebden, referred to above, who was the first chairman, a position which he ably filled for many years. Two years later the South African Bank was established, also in Capetown. The first directors of the former were, with two exceptions, British, while those of the latter were Dutch, also save two of them—an eloquent testimony to the cordial co-operation of the British and Dutch colonists in the early days of the British *régime*.

This combined opposition was the death-blow to the Lombard and Discount Bank, which had daily been losing ground and ultimately ceased to pay. It was for some time in liquidation, the intention having been to wind it up on the 31st December, 1842, but it was not finally closed till the 31st January, 1843.

The above are briefly the salient features in the chequered history of South Africa's first and only State Bank, and which forcibly illustrate the dangers and inevitably serious consequences of an inconvertible paper currency having a forced circulation.

II. THE TRANSVAAL, OR SOUTH AFRICAN REPUBLIC.

We are all more or less familiar with the stirring history of the South African Republic. The romantic story of the exodus of the Boers from the Cape Colony, and the conflicting causes that led to the "Great Trek"; the occupation by the emigrant Boers of the country that was ultimately known as the Orange Free State; the conquest of Natal and the Transvaal; the establishment of the former South African Republic; the terrible hardships endured by the sturdy voortrekkers; their stern warfare—more of the nature of self-defence than mere conquest—with the powerful native races under Dingaan and Mosilikatze, etc.; their ardent struggles for freedom and independence; the jealousy that existed between the first two principal leaders, Potgieter and Pretorius; the bitter dissensions among the emigrants culminating in civil war; and the utter failure for many weary, strenuous years in self-government. The whole record forms a chapter of thrilling interest in the annals of modern history. But time does not permit us to dwell upon the gradual evolution, from all the elements of confusion and chaos, of a State fully equipped with all the resources of civilization. Our purpose to-night is to consider a particular phase in the chequered history of the late South African Republic. The subject is essentially of an economic, though partly political, character. Having ultimately established a Commonwealth, on the basis of republican principles, how did these worthy pioneers of civilization in South Africa provide the wherewithal to carry on the government of the country? It has to be borne in mind that the ordinary expenses of Government were greatly increased by the cost of the continual Kafir wars and the bitter and ever-recurring quarrels among the burghers. They were only too glad to have any pretext for not paying their taxes, which were levied under a somewhat loose system. In fact, they had a rooted objection to be called upon to pay taxes, even for the public service of the country. The meagre exchequer of the Government was exhausted; and within a decade of its establishment the Republic was practically insolvent. Certain immediate debts, connected with the purchase of ammunition and for the payment

of the salaries of the miserably-paid officials, had to be met. To provide for these pressing claims, the Government, prior to 1857, was compelled to issue "Mandaten," which, to use the South African expression, may be generally described as Treasury Bills, equivalent to what are known in the Old Country as Exchequer Bills. But these "Mandaten" were evidently not a popular method of deferred payment, and were totally inadequate to meet the ever-increasing financial requirements of the Government.

In September of 1857 the question was mooted, at the Volksraad Session in Potchefstroom, that the Government should issue notes. Thus history repeats itself, as the pernicious example of the Cape was intended to be followed. The proposition was, for some reason or other, not given effect to before 1865. By Volksraad Resolution of 9th of June of that year, Government Notes to the value of Rds. 140,000 (or £10,500) were issued. This first emission of paper money was printed on blue foolscap; and hence earned the distinctive name of "Blue-backs." The notes (of which a specimen of the 1867 issue, also "Blue-backs," is amongst my collection on exhibition to-night) present a crude appearance, and are not a brilliant example of the printer's or engraver's art. The denominations of the first issue of notes were Rds. 5 and Rds. 10, respectively. The "Blue-backs" were inconvertible, at least for a period, as they were only payable 18 months after date, and then in hard cash, with 6 per cent. interest. They were declared a legal tender, except for old debts.

It is not surprising to learn that, even with the best of intentions, and notwithstanding the generous provision for the payment of interest as a set-off against deferred payment, the notes were *not* paid at maturity. All the Rds. notes were called in on the 31st March, 1868.

Necessity knows no law, and once the needy Republic had embarked upon the stormy sea of currency expedients, in the form of inconvertible paper money, there was no drawing back. Further issues were freely made as follows:—

£12,000	in terms of Volksraad Resolution of April 5, 1866, in £1, 5s., and 2s. 6d. notes. Payable in five years, without interest.
£20,000	in terms of Volksraad Resolution of 25 May, 1867, to replace the Mandaten (£9,510 16s.) still in circulation, and to

pay arrear salaries to officials and other debts. Payable in five years.
 £45,000 in terms of Volksraad Resolution of 17 March, 1868. Payable in ten years.
 £73,826 5s. 4d. in terms of Volksraad Resolution of 21st June, 1870. New notes made in England.

All the above were legal tender notes.

Law No. 11 of 1870 was passed regulating the exchange and payment of Government Notes; also Law No. 7 of 1871, regulating the exchange of new Government Notes for those of old issues.

A Financial Commission, appointed by the Volksraad in February, 1866, reported on the 28th March, 1866. In April following, £12,000 in *sterling* "Blue-backs," referred to above, was issued. Another Financial Commission was appointed, by Volksraad resolution on 6th December, 1867, for the supervision of the Treasury and the issue of Government Notes. It was found that the Government was deeply involved in debt; also that more inconvertible notes had been issued by the Treasury than were authorized by the Volksraad. The Commission on the 31st of March, 1868, called in the outstanding Mandaten, bills and open accounts against the Government.

The inevitable result ensued. The inconvertible "Blue-backs" became redundant, and, as a necessary consequence, greatly depreciated in value. The Government of the South African Republic, as the result of their unsound finance and their dangerous currency expedients, afforded further testimony to the universal experience that no State ever possessed the power to issue paper money without abusing the power. The Cape Colony had a bitterly painful experience of the serious and inevitable evils arising from such a fundamentally vicious and economically unsound method of finance as a Government paper currency, which is inconvertible and has a forced circulation. Such a currency has a natural tendency to become redundant, and thus of necessity to greatly depreciate in value.

The Transvaal, as was only to be expected, had a similar bitterly painful experience of inconvertible paper money as the Cape Colony. There was no confidence in the Government; and no prospect that the "Blue-backs" would ever be paid out in coin. It has to be borne in mind that a paper currency, whether convertible or inconvertible, would in our case *ultimately require to be redeemed on a gold basis*. It is on record that "the officials

of the Government suffered the most, as they had to receive their salaries in depreciated Blue-backs, which could only be disposed of at a discount of from 50 to 75 per cent. The merchants raised the prices of their goods, and the workmen the price of their labour, in proportion to the value of the paper money received by them. Disaffection and discontent prevailed all over the land, for the Government, who could not raise a revenue without continually increasing the debt of the country and ruining its credit, could look for neither submission nor respect."

The first issue of "Blue-backs" was made about a year after Marthinus Wessels Pretorius had been sworn in, on the 10th May, 1864, as President for his second term of office, he having been elected as first President of the South African Republic in July, 1855, which position he resigned in 1860, and became President of the Orange Free State. He was sworn in again as President of the South African Republic on the 19th May, 1869, and his resignation was accepted by the Volksraad on the 20th November, 1871. Pretorius assumed office at a most critical period in the history of the Republic, and had a very difficult task to perform. We are not discussing politics, so cannot pursue this theme further. From our point of view he has the distinction of being the "Blue-back" President, as the Government inconvertible notes were all issued during his several terms of office. Pretorius has left his mark on the history of the Transvaal. Pretoria was laid out and called after him, and in 1860 became, and has appropriately remained to this day, the seat of Government. Potchefstroom had previously enjoyed the proud distinction of being the capital of the Transvaal. The Government Printing Press, upon which, no doubt, the earlier issues of the "Blue-backs" were printed, was removed from Potchefstroom to Pretoria about August, 1863. The Government printer was one Moll.

It is interesting to note that a "Coat-of-Arms" for the Republic was approved by the Volksraad on the 30th September, 1867. The 5s. "Blue-back" note, of the issue of May, 1867, which is on exhibition to-night, presents a coat-of-arms of a very primitive design. It may probably be a crude reproduction of what would appear to have been the original coat-of-arms of the State sanctioned by the Volksraad that met at Rustenburg in 1858. Though somewhat anticipating the chronological sequence of events, it may be mentioned here that President

Burgers proposed what was styled at the time as an "improved" Coat-of-Arms and Flag, designed by himself, which were approved by the Volksraad on the 24th October, 1874. However, a revulsion of feeling manifested itself, and the Volksraad cancelled, 8th-10th May, 1875, its resolution of about seven months previously, and the old Flag and Coat-of-Arms were restored, to the great relief and joy of the people.

It has been remarked that the year 1867 was a memorable one in the history of South Africa. "In October the first diamond was discovered, and in December of that year Carl Mauch, the intrepid German explorer and naturalist, returned with Mr. H. Hartley, the well-known elephant hunter, from the interior, reporting the discovery of extensive gold-fields in the neighbourhood of the Tatin (or Tati, as it is now called). These discoveries soon brought a number of diggers from Australia, and caused a 'rush' from the Cape Colony and Natal."

The first alluvial gold in the Transvaal was discovered in February, 1873, in the district of Lydenburg. Alluvial diggings were for a time carried on, with more or less success, at Pilgrim's Rest, and the surrounding camps, such as MacMac, Spitzkop, Waterfall, Blyde River, and other "rushes."

The Rev. Thomas François Burgers, a minister of the Dutch Reformed Church in the Cape Colony, a member of the liberal church party, a man of great talents, a man of progress, an eloquent speaker—in a word, an idealist and enthusiast—was sworn in on 1st July, 1872, as State President of the Transvaal for five years. Burgers has been described as a man "totally deficient in practical knowledge of men and things." We cannot tarry to consider whether this was so or not. What is evident, and Burgers should get the credit for it, is that no time was lost by him in inducing the Volksraad to sanction a loan of £63,000 from the Cape Commercial Bank, Capetown, for the redemption of the inconvertible "Blue-backs." This was a contingency which the most credulous would not have believed to be possible six months previously. The Volksraad Resolutions in this connection were taken on 25th July and 7th August, 1872. The conditions of the loan were approved by the Executive Council on 13th December, 1872, and by Volksraad Resolution on 25th February, 1873. The net proceeds of the loan was £60,000, the rate of interest charged being 6 per cent. For the £63,000 loan, debentures were issued bearing 6 per cent. interest, which were to be redeemed at par within the term of 20 years,

in four instalments of five years each. The loan dated from 1st January, 1873, and the first instalment of £15,750 was due on 1st January, 1878. For the due observance of the engagements entered into with the Bank, a "Sinking Fund Commission" was appointed by the Volksraad, consisting of three persons, who, together with the Treasurer, had the sole supervision of the loan, independent of the Government or the Treasury Department.

A Delgings Fonds. or Sinking Fund, was established by Law No. 2 of 1873, which the "Sinking Fund Commissioners" administered. The members of the Commission were Messrs. H. W. Struben (Chairman), H. J. Schoeman, Chr. Joubert, and H. van Breda, Treasurer-General, Hon. Secretary.

As a corollary to the successful flotation of the above loan, provision required to be made for the exchange of Government Notes, or "Blue-backs," for hard cash. Law No. 3 of 1873 was enacted by the Volksraad, on 8th March, regulating this matter. Volksraad Resolution of 13th November, 1874, decreed that Government Notes and Good-fors would cease to be a debt of the country and would not be payable after 1st February, 1875. It was afterwards found out that the amount of the loan did not cover the Blue-backs in circulation. Another loan of £18,200 was contracted in 1876, with the Pretoria Branch of the Cape Commercial Bank, at 8 per cent. interest. The repayment of this loan appears to have been due in 21 months from the date it was granted.

President Burgers was able, as though with the skill of the magician, to redeem the mass of the immensely depreciated, redundant, inconvertible "Blue-backs," and thus rid the Transvaal of the terrible incubus upon the trade and finances of the State. All credit is due to his memory in this connection. The achievement proved him to be a sound economist and shrewd statesman. But, on the other hand, it must be confessed that the country did not derive the benefit commensurate with the actual merits of the financial *coup*. Owing to the unfortunate failure of his scheme for a railway to Delagoa Bay, an enlightened and bold project, the State exchequer, at the end of his term of office, was empty; the country deeply involved in debt; and its credit much worse than at the commencement of his rule.

There is another incident in the official career of Burgers that demands our attention. When he entered upon his high

and responsible office he found a most unwelcome financial legacy from his predecessor, in the form of the large amount of inconvertible "Blue-backs" in circulation. We have just seen how successfully he dealt with this difficult problem. His success evidently induced him to go to the other extreme. He endeavoured to establish a gold coinage. In this connection Burgers has received what seems to us unmerited censure, as the gold coins struck have been described by some as the outcome of a childish vanity and a love of parade on the part of Burgers. Whatever element of vanity may have entered into the matter, we prefer to consider that the gold coins were chiefly intended to signalize the discovery of the first alluvial gold—gold is the characteristic precious metal of Africa—within the borders of the Transvaal. Burgers was shrewd enough to realize the utmost significance of this important discovery, which took place in February, 1873. He accordingly caused 215.03 ounces of Transvaal gold, obtained at Pilgrim's Rest, District of Lydenburg, to be minted into 837 coins, each equal in value to a British sovereign. These coins bore his own likeness, were officially known as "Staats Ponden" (otherwise "Burgers' sovereigns"), and were declared legal tender by Volksraad Resolution of 23rd September, 1874. It is understood that the coins cost more than their value. The experiment did not succeed in creating a new coinage for the country. Owing to the limited number struck, the coins soon became very scarce, and to-day a specimen is of considerable value as a numismatic curiosity. The coins are greatly prized by collectors. It is a splendid specimen of a coin, beautifully designed and executed.* It should be mentioned that the State Coat-of-Arms borne on the coin is different to that exhibited by the well-known "Kruger sovereign." An excellent specimen of the "Burgers' sovereign" is on exhibition to-night.

We now come to the Kruger *régime*. It is common knowledge that President Kruger established a mint, under a concession in connection with the National Bank, S.A.R., and from which were issued coins popularly known as "Kruger sovereigns," etc. All this is so recent and well-known that we need not dwell upon it, beyond remarking that it was a genuine coinage, and that the coins are still current in the Transvaal.

During the recent Anglo-Boer war, the Government of the late South African Republic issued what are officially known as

* The Burgers' sovereigns are understood to have been struck in Holland.

“Gouvernements Noten” of various denominations from r1 upwards. These notes were secured by all the fixed property of the State, as set forth in Law No. 1 of 1900; had a forced currency, otherwise were legal tender; and were inconvertible. They were to be redeemed by means of drawings, which were to commence on the 1st June, 1901, at which date £100,000 sterling were to be paid off, and so to continue paying off every following 1st June £100,000 sterling until the whole amount shall have been paid. Certain provisions were made for the destruction of the notes after they had been redeemed. The notes were to bear interest at the rate of 6 per cent. per annum, payable to the holder in sterling money on each 1st June for the year then expired. A large number of these notes were not redeemed.

Two specimens are on exhibition to-night.

It is a singular coincidence that the Mandaten or Treasury Bills, originally issued during Pretorius' first term of office as President, were largely for the purchase of ammunition; while the “Gouvernements Noten” issued by President Kruger, and which was practically the last financial operation of the South African Republic, were to enable the Government to finance the late war. The late South African Republic was thus founded and nurtured amidst the tumult and confusion of war; war was well-nigh its daily portion for many long, anxious years; and by the arbitrament of war it ceased, after having made a brave and noble fight for freedom and independence, to exist as a separate State. It was, owing to its peculiar circumstances and the aggressive characteristics of the Burghers, from first to last a fighting Republic. Inconvertible paper money played, as we have seen, a most important part in connection with the rise, development and final overthrow of a State that was originally founded upon essentially democratic principles.

III. THE ORANGE FREE STATE.

The Government of the late Orange Free State, at a critical period in the history of the Republic, also had recourse to the issue of inconvertible paper money, which was also popularly known as “Blue-backs.” As was to be expected, the State had a bitter experience of the evils necessarily arising from such a vicious form of currency. The “Blue-backs” ultimately depreciated from 50 to 75 per cent., inflicting great loss upon the trade of the country. The circumstances of the issue of “Blue-backs” were as follows:—In March, 1865, the Volksraad decreed that, after

the 1st of January of the following year, no foreign bank should be permitted to exist in the State. Though the Standard Bank was not specifically named, the resolution was specially directed against it, as it was the only foreign Bank then doing business in the country. This drastic measure forms an unique example of bigotry and intolerance as the outcome of intensely local jealousies. We cannot at present dwell upon the circumstances surrounding this incident, beyond remarking that, as is generally the case, there appear to have been faults on both sides. As the result of the proscription of the Standard Bank, whose notes would soon require to be withdrawn from circulation in the State, it was necessary to supply a substitute for these notes so as to form a circulating medium. With this object in view, the Volksraad resolved to issue, through the Bloemfontein Bank, a paper currency in notes, not exceeding one pound each, to the extent of £30,000, redeemable in coin at the expiration of ten years from date of issue in 1865. The notes were thus inconvertible, and were declared to be a legal tender within the State. By a curious coincidence the resolution to issue sterling "Blue-backs" in the Free State was taken about three months previously to the Transvaal Volksraad resolving to make the first issue of their inconvertible "Blue-backs" in Rds. notes.

The essay of the Free State in currency expedients was made during the long, wise and beneficent rule of President Brand. It was a choice of two evils. The "National" sentiment had been appeased by the proscription of the Standard Bank. But another difficulty, of an essentially financial nature, immediately cropped up. History again repeated itself in the attempt to meet this contingency. In the past, whenever a country had not sufficient credit, or available assets, on which to borrow money, that is, raise a loan, the Government had recourse to the vicious expedient of issuing inconvertible paper money. Now from the point of view of any given Government, the issue of inconvertible paper money has one great advantage over the raising of a loan. That is, that once you get a loan, interest at a given rate has to be paid regularly on the whole amount of the loan. But inconvertible paper money can be created by a stroke of the pen, costs practically nothing, and under certain circumstances can be made to yield a profit. There is one point of resemblance between inconvertible paper money and a loan, and that is, *both require to be ultimately redeemed in hard cash.*

Certain merchants in the Free State, probably as the result

of the issue of the "Blue-backs," and not earlier, so far as we have been able to ascertain, than towards the end of 1865, issued their own "Good-fors" for amounts ranging from 3d., 1s. 6d., 2s. 6d., to 5s. Even the Bloemfontein Bank issued "Good-fors" for 2s. 6d. There was a great scarcity of silver coins in the Free State, and these "Good-fors" were intended to supply the lack of small change. Five specimens are on exhibition to-night.

IV. MAFEKING AND RHODESIAN EMERGENCY NOTES.

During the recent Anglo-Boer War, certain emergency notes were issued at Mafeking and Bulawayo. They were, as a rule, for small amounts, and were inconvertible for a period. Certain specimens are on exhibition to-night.

We have now completed our review of "Inconvertible Paper Money," so far as South Africa is concerned; and trust that we have succeeded in interesting you in what constitute important, though not generally known, episodes in the history of South Africa.

At the conclusion of his paper,

Mr. Barker was asked to kindly explain why he had not treated of inconvertible paper money in Natal; and whether such currency was ever in circulation in that Colony; and also, when the Government of the Orange Free State decided to debar foreign banks from transacting business within the State, why only the Standard Bank, and not the Bank of Africa, also, was affected.

Regarding the question of inconvertible paper currency in Natal, Mr. Barker explained that Natal, from 1839 to the 10th May, 1843, was a Boer Republic; that on the latter date it was proclaimed a British Colony, and was administered as a sort of Dependency of the Cape Colony, to which it was annexed in 1845; and, so far as he was aware, the Cape Colony currency would be in circulation there; but that when Natal was made an independent Colony in 1856, there was then no need for an inconvertible paper currency, as the Natal Bank was founded in 1854, and the notes of that bank furnished a legitimate circulating medium.

As to the question of the Standard Bank in the Free State, he stated that in 1865 the Standard Bank was the only foreign

bank then operating in the State. There were two local banks, one at Bloemfontein and the other at Fauresmith; and, as mentioned in his paper, the Raad resolution did not mention any particular bank at all, but that the resolution was really aimed at the Standard Bank, which ceased to transact fresh business after December, 1865. The Oriental Bank later on took over certain of the local South African Banks, one of which was the Fauresmith Bank, and so got a footing in the State; and it was due to the Bank of Africa absorbing the South African business of the Oriental that they obtained permission to transact business in the Free State. He added that he understood the Standard Bank subsequently made repeated applications for permission to trade in the State, but were always met with a refusal.

MR. W. DUNLOP, rising to propose a vote of thanks to the lecturer, said he regretted that a discussion on the paper had not been forthcoming, and suggested that after the paper had been published in the *Journal* the members of the Institute might meet on some future occasion, and, after having more thoroughly digested the contents of the paper, would come prepared with criticism that had been well thought out. If such a proposal were adopted he thought the discussion would be more profitable and interesting. The lecture had been a most interesting one, and it was pleasing to know that an old banking man had taken such an interest in the subject, which had been so ably put before them by Mr. Barker. The paper was so full of interesting information that one could not but admire the grasp and ability which Mr. Barker had shown in dealing with the subject of inconvertible paper currency. Besides dealing with the history from a financial point of view, he had also given a general historical *résumé* of the period which his lecture covered. He had very much enjoyed the references made to some of the prominent men who had played such an important part in the history of the country. The lecture, he felt, had been thoroughly enjoyed by all present, and a debt of the warmest gratitude was due to Mr. Barker for so kindly consenting to give the lecture; he had very much pleasure in proposing a very hearty vote of thanks.

MR. W. ELPHINSTONE seconded the vote of thanks, and assured Mr. Barker that the want of a discussion was not due to a lack of interest in the paper. It had given him the greatest of pleasure to listen to the lecture, and it was, he thought, quite an intellectual treat.

MR. BARKER, on rising to respond to the vote of thanks, was most enthusiastically applauded. He thanked the meeting for the attention that had been given to his lecture, the subject of which, though interesting to himself, was not, he was afraid, so interesting to the general public. In treating of inconvertible paper money, he had endeavoured to give a brief history of the unfortunate experiences of South Africa in this connection, and if he had succeeded in interesting them, he would be very pleased to give another paper on some other subject on a future occasion.

A vote of thanks to the Chairman, proposed by Mr. Whitelaw, concluded the meeting.

APPENDIX.

LIST OF OLD BANK AND GOVERNMENT NOTES, COINS, GOOD-FORS, ETC., ON EXHIBITION ILLUSTRATIVE OF MR. BARKER'S LECTURE.

CAPE COLONY.

Bank of South Africa, Cape Town: "On Demand Promise to Pay.....or Bearer," etc., four notes of the respective values as undernoted:—

- (1) Two Skillings.
- (2) Four Skillings.
- (3) One Rix Dollar.
- (4) Two Rix Dollars.

All these four notes are unissued specimens. They are dated 18....; but, as they are for Rix Dollars, and lesser proportions thereof, they must have been intended for use prior to 1825. Mr. Barker has found it impossible to identify this Bank. It does not appear to have actually come into existence.

TRANSVAAL.

5s. "*Blue-back*" Note, No. 412, of 1867, being a legal tender for five years from date, part of issue under bond of Government farms to the extent of £20,000, in terms of Volksraad Resolution of 25th May, 1867. The note is signed by "M. W. Pretorius, President," etc. Printed on blue foolscap paper, the watermark showing only part of the maker's name as follows:—"EN & SON," and part of the date, "56."

Burgers' Sovereign, or "Staats Pond," 1874. Only 837 were coined from Lydenburg gold, constituting the first Transvaal coinage.

Kruger Sovereign of 1892; double shafts to wagon. The Transvaal Coat-of-Arms is somewhat different from that exhibited by the Burgers' Sovereign. The coin bears Kruger's image, but not his superscription; differing also from the Burgers' Sovereign in the latter respect. It is understood that the 1892 issue was struck off in Germany. The issue consisted of the sovereign, half-sovereign, crown, shilling, and penny.

£1, *Gouvernements Noot*, No. 11199, dated Pretoria, 28th May, 1900. Issued in terms of Law No. 1 of 1900, in various denominations from £1 upwards. The note was a legal tender.

£1, *Gouvernements Noot*, No. 5817A, dated Pietersburg, 1st February, 1901. Also issued in terms of Law No. 1 of 1900. Both series of these notes were printed at the State Printing Works.

ORANGE FREE STATE.

Good-fors.

Bloemfontein Bank.—Parts of two different Good-fors for 2s. 6d. (but neither complete), one dated 1st November, 1872, and signed by "Geo. H. White, Cashier."

McNaughton & Co. ("McNaughton's Ticket"), Bethulie, for 2s. 6d., dated 6th February, 1868. "Payable on presentation of 8 of them."

J. A. Smellekamp, Bloemfontein, for 5s., dated 7th November, 1865.

Bevan & Cameron, Bloemfontein, I.O.U. for 3d., dated August, 1871.

Louis Neumeyer, Boshof, for 1s. 6d., dated 1st October, 1867. "Payable on presentation."

MAFEKING EMERGENCY NOTES.

No. A5807 for 1s., dated January, 1900. "Issued by the authority of Colonel R. S. S. Baden-Powell, Commanding the Rhodesian Forces. This voucher is good for the sum of 1s., and will be exchanged for coin at the Mafeking Branch of the Standard Bank, on the resumption of Civil Law."

No. 4172 for 10s., dated March, 1900. Issued under same authority and on same terms as the 1s. note. Col. Baden-Powell is styled as "Commanding Frontier Forces."

BULAWAYO EMERGENCY NOTES.

3d., being a postage stamp of 1897 issue	} respectively affixed to a card measuring 3in. x 2¼in.
6d., being a postage stamp of 1896-7 issue	
1s., being a postage stamp of 1896-7 issue	
2s. 6d., being a postage stamp of 1896-7 issue	

These notes were to be redeemed at the face value of the stamp affixed, if presented on or after the 1st August, 1900. The cards were to be produced for redemption not later than the 1st October, 1900. These notes were only issued to the troops in the field when the supply of current coins was exhausted.



