

THE RIXDOLLAR AND THE FOREIGN EXCHANGE *

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INCONVERTIBLE RIXDOLLARS were first issued at the Cape by the Dutch East India Company in April, 1782. The British Treasury began the conversion of the rixdollars into sterling in June, 1825. The purpose of this paper is to consider the significant monetary and foreign exchange developments over this period.¹

The Cape administrations responsible for the rixdollar have been generally condemned for their inability to maintain the foreign exchange value of their paper currency. A series for the rixdollar-sterling rate of exchange is available for the period 1808-1825.² As the series shows, the annual average sterling value of the rixdollar fell from 3s. 3d. in 1808 to 1s. 6d. in 1825. This depreciation has been taken as evidence of excess rixdollar issues and therefore monetary mismanagement.

A monetary system must be judged by its ability to satisfy the objectives of monetary policy. Contemporary governments accept full employment, price stability, an adequate rate of economic growth and equilibrium in the balance of payments with fixed exchange rates as the goals of monetary policy. It is widely recognised that these multiple goals are not necessarily compatible.

The objectives of monetary policy of countries attached to the pre-1914 gold standard were much less ambiguous. The prime concern of central bankers was for their stock of gold and foreign exchange reserves and so their ability to maintain the convertibility of the domestic money supply at par into gold. In this aim they

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1. The reports of the British Commissioners of Inquiry at the Cape, John Thomas Bigge, William Colebrook and W. Blair have been the major source of information for this article. The 'leading' subjects for their inquiry were to be "The general administration of government, and the immediate control exercised by the Governor himself . . . The local institutions, establishments and regulations, civil and military, and more especially those of a judicial and financial character".†

The following reports of the Commissioners were published by the House of Commons. The abbreviations for these publications used in the article follow in parentheses:

No. 438, 26th May, 1826. Papers respecting a British Metallic Circulation at the Cape of Good Hope. (BPP 438, 1826).

No. 282, 1st May, 1827. Reports of the Commissioners of Inquiry:

I. Upon the Administration of the Government at the Cape of Good Hope.

II. Upon the Finances at the Cape of Good Hope. (BPP 282, 1827).

No. 406, 30th May, 1827. Documents referred to in the Report of the Commissioners of Inquiry upon the Cape of Good Hope. (BPP 406, 1827).

No. 371, 21st August, 1827. Further papers relating to the Administration of the Government of the Cape of Good Hope. (BPP 371, 1827).

No. 300, 2nd June, 1829. Report of the Commissioners of Inquiry upon the Trade of the Cape of Good Hope. (BPP 300, 1829).

Much of the information contained in the publications had been collected and republished by G. M. Theal in his *Records of the Cape Colony*. (Records).

A general background to the commissioners appointment is given by W. M. Macmillan in Chapter 10, Vol. 8 of the *Cambridge History of the British Empire* (1936).

† From a copy of the Instructions given to Commissioners of Inquiry proceeding to the Cape of Good Hope, Mauritius and Ceylon; Downing Street, 18th Jan., 1823, in *Records* Vol. 15, p. 237.

2. See Table 1.

were very largely successful. Few gold standard countries were forced off gold, and there was no general recourse to exchange and import controls. These central banks utilised a number of methods to maintain convertibility. The Bank of England evolved its bank rate technique to protect its small gold reserve relative to the potential demands upon it. The so-called gold "devices" were employed by central banks (including the Bank of England) to widen the effective gold import and export points. On the other hand the Bank of France traditionally held large gold reserves as an alternative to frequent changes in interest rates.

While not necessarily insensitive to the state of their domestic economies it is clear that at the very least the central banks of countries on the nineteenth century gold standard did not deliberately offset the effects of the balance of payments on their internal money supply.³ A deficit on the balance of payments would reduce the money supply. The reduction in the gold stock and the money supply accompanying a persistent balance of payments deficit would not normally be offset by central bank purchases of domestic assets. The theory of balance of payments adjustments would accept that a sufficient decline in the stock of money must inevitably eliminate any excess demand for imports. However, adjustments to the reduced supply of money could take the form of lower levels of employment and real incomes rather than have effects on prices only.

When the broader criteria for monetary and economic policy are adopted, the possible deflation of incomes and employment required to reduce the demand for imports may be unacceptable. If the foreign exchange rate is allowed to fluctuate then the monetary authorities can avoid the sacrifice of full employment in order to maintain fixed exchange rates. With a floating exchange, changes in the rate of exchange automatically equalize the demand for and supply of foreign currency. In the longer run, changes in the relative prices of imports, exports, import replacements and purely domestic goods will stimulate appropriate adjustments in the real economy.

Under such a system of floating exchange rates a depreciation of the exchange is not necessarily the effect or the cause of inflation. Higher import and export prices could mean a reduction in the prices of goods not traded internationally. Furthermore, a depreciation of the exchange rate could occur with constant money incomes.

David Ricardo as an extreme bullionist did not accept any 'real' phenomena as explanations for the depreciation of sterling during the period when sterling was inconvertible between 1797 and 1821. Ricardo argued that the depreciation of sterling was synonymous with the increase of all prices and therefore itself evidence of excess issues.⁴

The analysis of the British Commissioners of Inquiry on the depreciation of the

3. Cf. A. I. Bloomfield 'Rules of the Game of International Adjustment?' in essays in *Money and Banking* in honour of R. S. Sayers, (editors C. R. Whittlesey and J. S. G. Wilson, Oxford 1968). Also R. S. Sayers; *Central Banking after Bagehot* (Oxford 1957) and *Bank of England Operations* (P. S. King and Son Ltd. London 1936) Chapter IV reprinted as Chapter 10 of *Papers in English Monetary History* ed. T. S. Ashton and R. S. Sayers (Oxford 1953).

4. Cf. David Ricardo; *The High Price of Bullion, a Proof of the Depreciation of Bank Notes, 1810-1811*, Reprinted in Vol. III, *The Works and Correspondence of David Ricardo* edited by Piero Sraffa (Cambridge 1951).

rixdollar could be described as Ricardian when they explain that “. . . although the depreciation was less apparent in the internal transactions of the colony, there could be no real distinction in the relative value of the currency in the internal and external transactions of the colony, as the products of the country were themselves disposable in the same markets with the goods imported . . .”⁵

F. W. Fetter has explained that in a sense the Ricardian view is correct. The depreciation of the rixdollar could have been prevented by a sufficient decline in the supply of money.⁶ Again, the approval of modern political economy for such a policy measure would depend in part on the effects of the decline in the quantity of money on employment. An ideal money supply, satisfying the different objectives of modern monetary policy, would be ‘neutral’, i.e. this stock of money would perform its monetary services without exerting either deflationary or inflationary pressures on the real economy.

Further discussion of these issues with particular reference to the Cape of Good Hope in the first quarter of the nineteenth century must be deferred until the nature of the monetary system has been revealed. The attempt is then made to judge the adequacy of monetary management at the Cape during this period. The real and the monetary factors considered responsible for the depreciation of the exchange will also be considered.

The official explanation given for the first rixdollar issues was the disruption of normal supplies of specie from the Netherlands owing to war with England. A complement of French soldiers at the Cape to forestall a British invasion were, however, an additional drain on the Cape treasury while a hasty attempt to borrow money from the burghers had also failed. Till then the rixdollar had served (with the guilder) as a pure unit of account.⁷ The company pledged itself to convert the notes into coin when supplies were resumed. A supply of Dutch coins was received in 1784 and the conversion of the rixdollars into coins and bills on Amsterdam began.⁸ However, before the conversion was complete, additional paper rixdollars were issued between 1788–1790 and the Cape was to retain an inconvertible currency and a floating exchange rate until the rixdollars were made convertible into sterling in June 1825.

The Dutch East India Company maintained a nominal monopoly of the Cape’s internal and external trade. With the paper issue the Company fixed the rixdollar values of foreign coin, prohibited the export of coin and made stores available at equal prices for specie and paper. Despite the company monopoly and these regulations, complaints received about discrimination against the paper currency, renewals of the ban on exporting coin and additional fines for refusing

5. BPP 282, 1827, p. 67.

6. Frank Whitson Fetter; *Development of British Monetary Orthodoxy 1797–1875*, (Harvard University Press 1965) pp. 42–48.

7. Accounts at the Cape were kept in Rixdollars, skillings and stuivers at the rates of exchange Rxd. 1 = 6 skillings = 48 stuivers.

The guilder was an additional unit of account at the Cape equal to 3 rixdollars. In 1770 the authorities revalued the rixdollar at 2·4 Dutch guilders. Measured by the relative silver content of the Dutch guilder and the English shilling this made the par value of the rixdollar four shillings sterling. See E. H. D. Arndt; *Banking and Currency Development in South Africa (1652–1927)*, (Juta & Co., Cape Town 1928) Chapter 1. Also the Memorandum of Commissary J. A. de Mist 1802 (The Van Riebeeck Society, Cape Town 1920) pp. 278–283.

8. BPP 406, 1827, pp. 44–47.

paper,⁹ confirm that unofficial trading was widely practised and suggest that some real depreciation of the paper rixdollar had taken place.

The Cape branch of the Dutch East India Company showed a persistent deficit on Revenue and Expenditure account. This deficit was part financed to a maximum of 100,000 guilders by the sale of bills on the Company in Amsterdam at a fixed premium of $8\frac{1}{2}\%$.¹⁰ The bills were used to remit savings. An additional method of remittance was through the medium of so-called Salary Bills. Salaries were made payable in Holland and officers stationed at the Cape could take advantage of the depreciation of the local exchange by selling their negotiable salary claims for rixdollars.¹¹

The Dutch East India Company had entered its last unhappy years. Despite the paper currency the Cape was not spared the Company's belated and unavailing economies. A lively period at the Cape ended with European peace and the embarkation of the French regiments. The Cape Treasury deficit was reduced by the deflationary combination of raising revenue and paring company expenditure.¹²

In June 1792 the Company Commissioners Nederburgh and Frykenius arrived to seek further economies. They did, however, provide the depressed settlement with relief in the form of a Bank van Leening, the 'Loan Bank', later also described by the British authorities as the Lombard Bank.

The Loan Bank has been aptly described as a combination of mortgage bank and pawnbroker.¹³ The Company treasurer placed rixdollars with the Bank to be advanced at 5% p.a. against the security of land buildings, deeds and registered bonds, gold and moveable non-perishables like furniture. Loans were restricted to 50% of the value of property in Cape Town and $66\frac{2}{3}\%$ of property values in the districts. 85% was allowed on gold and silver and 50% on the estimated value of moveable property. Loans were repayable by instalments.

The Loan Bank was not a bank of deposit. Moreover not more than Rxd.20,000 of its capital could be kept idle and furthermore any excess cash above Rxd.1,000 was retained on deposit with the Receiver General.¹⁴

Nederburgh and Frykenius thought a circulation of Rxd.1m. would serve the needs of the Cape. The permissible circulation was later increased to Rxd.1·20m.¹⁵ and at the time of the first British occupation in 1795, the capital of the Loan Bank was Rxd.670,000 and the total paper currency amounted to Rxd.1,291,276.¹⁶

The capital of the Loan Bank in 1795 is greater than the increase in the money supply over the period 1793-1795. The presumption is therefore, that in addition to new money issued for the purpose, rixdollars were also transferred from the local Treasury balance to the Loan Bank.

9. Arndt (op. cit.) Chap. I.

10. Records, Vol. 6, p. 216.

11. Arndt (op. cit.) p. 11.

12. De Mist (op. cit.) pp. 180-181.

13. Arndt (op. cit.) p. 168.

14. BPP 282, 1827, p. 60.

15. de Mist (op. cit.) p. 283.

16. Statement of the Amount of Paper Money in Circulation on 1st January 1825; prepared by the Receiver General M. Stoll; BPP 406, 1827, pp. 44-47. Also reprinted Records, Vol. 22, pp. 123-128.

The British administration retained the paper currency and accepted liability for it in exchange for Company property and military installations. Governor Macartney was well aware that government and military property without alternative uses could have no market value ". . . the Security, as it is called, of the lands and houses for the paper money, is a mere illusion, as not being convertible into immediate value, and that in reality the paper money depends upon the credit and solidity of the Government alone."¹⁷

The occupying troops were paid in silver Spanish dollars.¹⁸ Their upkeep was financed by the sale of bills on the Treasury in London in exchange for their Spanish dollars. The premium on these bills represented the effective depreciation of the rixdollar. The British civil servants had their salaries nominated in sterling and as such suffered no loss on the rixdollar sterling exchange. The premium on the bills also determined the rate at which their salaries were converted into rixdollars. In addition, for the purpose of remitting part of their salary, they enjoyed a prior claim to the bills issued by the Commissariat.¹⁹ The premium on the commissariat bills was initially 20%. However, the inflow of foreign exchange in the form of these bills soon reduced the price of the bills to par value. Other than some copper coins issued at 2 stuivers, i.e. above the value of their metallic content, no additional imports of specie had been received.²⁰ By April 1797 the commissariat department was unable to sell sufficient bills to satisfy its requirements.

To overcome this problem General Craig first transferred Rxd.40,000 of the ordinary revenue of the Colony to the Commissariat.²¹ Additional requirements of the garrison (equivalent to the excess supply of bills at par) were met by an increase of Rxd.250,000 in the paper currency. As Craig explains, the reason for the issue was a complete failure of the Commissariat credit.

" . . . In my letter of the 14th January I entered fully into the inconvenience that we experienced from the want of money and the almost impossibility which even then existed of procuring any. Our difficulties on this subject have gone on gradually increasing—the exchange on paper money has successively fallen to 15 and 10 per. cent., to par and even at this rate none is now to be procured. The Commissary General's Credit has been stretched to the utmost but it has at length failed, and our contractors both for bread and meat, to whom very considerable sums are due, have formally notified their inability to furnish us any more. The troops are without subsistence, the Officers are unable to supply them with necessaries for want of money, the Public Works are at a stand, and it is even offered in excuse for non-payment of debts in the Courts of Justice, that it proceeds from Government not discharging theirs . . .

. . . the conviction that it is utterly impossible to carry on His Majesty's Service three days longer without a very large supply of money and I have, however

17. Letter from the Earl of Macartney to the Right Honourable Henry Dundas, Cape, Oct. 20th, 1797. Records, Vol. II, pp. 189-190.

18. Records, Vol. II, pp. 190-195.

19. Records, Vol. VI, pp. 216-217.

20. Records, Vol. II, p. 70.

21. Records, Vol. I, p. 464.

reluctantly, given directions for stamping and signing a sum of Two Hundred and fifty thousand dollars . . .”

Craig understood that if there was no supply of imports there could be no demand for the bills to finance these imports. “. . . the fact is, that all the money is at present in the hands of the peasant, who having received it for their cattle, their wine and their corn, have had no means of returning it to circulation, as the Merchants have been entirely destitute of these articles of supply, on which the peasants used to spend their money.”²²

The Cape at this time imported mainly from the East. Craig gave the Cape an unauthorised promise of free trade. Despite this the supply of Eastern goods had become the exclusive monopoly of the English East India Company. The Cape of Good Hope however, was not taken for its economic or trading potential, but occupied for what was the more negative purpose of denying its strategic value to the French. The Cape was moreover not a regular port of call for the East Indiamen. The Company was reluctant to disturb their ships' homeward passage via St. Helena and also slow to develop alternative methods of supplying the Cape. There was in addition a controversy between Governor Craig and the naval commander on the propriety of trade with neutrals. Trading with neutrals and others was regularised by Governor Macartney only in 1799. Fairly regular supplies from India were available in 1799 after a further dispute over import licences had been settled.²³

A supply of 133,021 Spanish dollars (value £33,255½) arrived at the Cape in January 1797. Together with some £12,000 worth purchased locally by the Deputy Paymaster General enabled salaries to be paid in 'hard money'. The Paymaster General hoped to find specie in exchange for bills for several months to come.²⁴ The War Office had by then contracted to supply the Cape with £100,000 silver and £5,000 copper. This contract remained unfulfilled but the commissary's financing problem was relieved by an increased demand for bills. Governor Macartney gave the following explanation for this development: “So rapid, within a few months, has been the progress and activity of commercial intercourse of one kind or another in this Colony, that contrary to expectation and to all former experience here, the silver dollar is now in common transactions almost at par with the regulated exchange against paper, and the demand for the Deputy Paymaster's bills on Government at home has been for some months past at 20% in its favour and this I think not unlikely to continue so, because I understand that the Merchants at this place having of late observed that there would probably be considerable demands for supplies of various kinds, have speculated largely, and as they are obliged to remit for the value within a limited period, they must

22. Letter from General Craig to the Right Honourable Henry Dundas, Cape, 2nd April, 1797. Records, Vol. II, p. 70.

23. Cf. M. Arkin; John Company at the Cape. A History of the Agency under Pringle (1794-1815), Based on a Study of the “Cape of Good Hope Factory Records”, in Archives Year Book for South African History (1961), pp. 189-207.

24. Records, Vol. II, p. 288.

purchase good bills at whatever exchange that can be got, however high and disadvantageous to them."²⁵

In addition to the Rxd.250,000 made available to the Commissariat the authorities added Rxd.165,000 to the capital of the Loan Bank and issued Rxd.80,000 for an emergency Rice Fund which was not however utilized.²⁶

The Batavian Republic assumed control over the Cape in 1802. The British liability for the Rxd.250,000 issued was satisfied by the transfer of stores.²⁷ The new administration following the recommendation of Commissioner de Mist had little faith in the free trading prospects of the Cape. Specie destined for the Cape was shipped on to Batavia and the paper currency was converted into another variety of note issue. The relevant proclamation included the following statement: "... having taken into consideration that during and in consequence of the freedom of trade already granted, the balance of commerce, that is to say, of the goods to be imported here, and those of inland producers to be exported from hence, shall not stand equal or rather shall be in favour of the imports, there will be no hopes that the Batavian specie, in whatever great quantity might be imported will remain in circulation; that consequently the continuation of the paper money at least provisionally is of a positive and incontrovertible necessity."²⁸

The export of coin was accordingly prohibited and arrangements were made for remitting money similar to those of the Dutch East India Company. The Batavian Republic paid a subsidy to the Cape in the form of bills on the Asiatic Council. Bills were made available at a fixed premium of 25% on application. Allocations of the bills were made by the governor and Council, preference being given to the Orphan Chamber for financing the education of its wards in Holland and to "others most deserving of government protection". It appeared that these bills were sold at a profit by their original holders.²⁹

The Batavian administration increased the paper circulation by some Rxd.300,000 to finance a variety of public works. Of this Rxd.75,000 was borrowed by the District of Stellenbosch to repair fire damage. This was to be repaid in instalments of 4% p.a., i.e. Rxd.3,000 which were still being received after 1825. Rxd.50,000 were issued to construct new drostdies at Uitenhage and Tulbagh, Rxd.25,000 went to the agricultural committee and Rxd.150,000 was employed in the construction of grain magazines. In addition the Rxd.80,000 originally designed by the British for a Rice Fund was used for a wheat subsidy.³⁰

The British reoccupied the Cape in 1806. The paper currency was retained in circulation and the ban on the export of coin reaffirmed. Despite the almost complete absence of coin in local circulation and the bans on the export of coin, the

25. Letter from the Earl of Macartney to the Right Honourable Henry Dundas. Cape, Sept. 18th, 1798. Records, Vol. II, p. 286.

26. BPP 406, 1827, pp. 44-47. Also the "Abstract Statement of the total amount of the Funds of the Lombard Bank . . ." prepared by H. Grocus, Book-keeper Lombard Bank BPP 406, 1827, pp. 8-9.

27. BPP 282, 1827, p. 60.

28. Copy of the Proclamation of the Dutch Governor and Council dated 18th Jan. 1804. BPP 438, 1826, p. 21. Also BPP 282, 1827, p. 60.

29. Letter from the Earl of Caledon to Viscount Castlereagh, Cape Oct. 8th, 1807, Records Vol. VI, p. 216. Also BPP 438, 1826, p. 25.

30. Summary of Paper issues (op. cit.) BPP 406, 1827, pp. 44-47.

commander Colonel Baird proclaimed a set of relative values for the coins expected in circulation.³¹

In 1807 Governor Caledon appointed a committee constituted of senior officials with financial responsibilities to undertake a "... thorough enquiry into the actual state of the Loan Bank and the means there may be in that institution capable of being brought out in support of the public credit." The Committee were then to "proceed to enquire into the whole of the circumstances that appear to have caused the absorption of the colonial currency." The Committee was asked to suggest "such remedies as are in its opinion likely to remove the evils complained of".

Caledon displayed a tender regard for the colonists' complaints about the absorption of the currency and its inefficiency as a circulating media. Caledon was particularly concerned with the evidence he had found that "several avaricious individuals (taking an undue advantage of the public calamity) were guilty of the most usurious practises."³²

The later Commissioners of the Inquiry saw the fundamental contradiction of Caledon's concern with both the 'absorption of the currency' and 'usurious transactions'.³³ Unlike specie the paper currency could have no circulation outside the Cape. The only 'absorption' could be into private hoards or temporary increases in the balance of the Colonial Treasury or the military chest. Private lending, however usurious, would, of course, circulate the currency and serve to increase rather than reduce the velocity of circulation.

However if funds were being hoarded and the wealth owners preferred money to goods, then Viscount Castlereagh, the Secretary of State, gave Caledon the entirely appropriate advice to prevent the deflationary effects of hoarding "... the most advisable measures would be to increase the fund of the Loan Bank cautiously to provide a sufficient quantity of paper currency for circulation and hoarding too ..."³⁴

Caledon's Committee reported that of the Loan Bank's authorised capital of Rxd.810,255, all but Rxd.33 was out on loan.³⁵ The regulations concerning the repayment and renewal of loans had been widely disregarded. The very limited return flow did not provide the means to finance additional lending. The assets of the bank were, in short, highly illiquid and some of the borrowers, lucky or influential enough to receive facilities from the Loan Bank at 5%, were utilizing these funds to finance their private lending at higher rates of interest.

Following the Committee's Report a number of changes in the structure and functions of the bank were introduced, designed to make the institution a more efficient lender.

Among the more important changes were the following: Renewals of loans which had previously been granted in all cases were to be refused where it would

31. BPP 438, 1826, p. 25.

32. Copy of Proclamation by the Earl of Caledon, Records, Vol. VI, p. 231.

33. BPP 282, 1827, pp. 61-62.

34. Letter from Lord Castlereagh to the Earl of Caledon, Downing Street, 12th May, 1809, Records Vol. VI, p. 500.

35. Records, Vol. VI, p. 277.

not be 'injurious' to the parties concerned. On the transfer of property mortgaged to the bank 20% of the loan was to be repaid. Furthermore 10% p.a. of all loans in Cape Town and 6% p.a. of loans in the districts outstanding for more than 2 years were to be repaid on 6 months notice. Sureties were reminded of their obligations and threatened with summary procedures. The interest charge was increased from 5% p.a. to 6%. In addition salaries of bank officials were to be paid from the Colonial Treasury and not from fees or income received at the bank. The process of adjustment to the new system was to be eased by the establishment of a 'Short Loan' fund of Rxd.150,000. Advances for less than 6 months in sums of not greater than Rxd.5,000 per applicant could be made.³⁶ A further instalment of Rxd.25,000 was added to the Short Loan Fund in 1808.³⁷ The inability to secure the prompt repayment of debts remained characteristic of the bank. Moreover the unpunctual discharge of debt and extended credit arrangements seemed to be the norm throughout the colony over the period. On these aspects the commissioners reported as follows: "It was observed by the (Caledon's) Committee, that so entirely had the regulations been lost sight of, that loans had been perpetuated to individuals without even the form of renewal, that additional loans had been subsequently obtained by parties on their property originally mortgaged to the bank, and upon the assumed increase in the value of such property during the interval.

The practice that continues at this day, in respect to the loans from the funds of the reformed church, many of which have been outstanding for the last thirty or forty years, sufficiently evinces the disposition of the colonists to perpetuate mortgages upon their fixed property . . ."³⁸

Caledon's major monetary reform of 1808 was the establishment of the Discount Branch of the Lombard Bank. A brief history of the Loan Bank proper will be completed before the development of the Discount Bank is considered. On March 3rd 1810 in response to the "same causes which led to the distress complained of being still in operation, an apparent deficiency in the means of the bank to relieve the productive classes," the capital of the Loan Bank's mortgage department was increased by Rxd.500,000. Loans were to be issued in sums of less than Rxd.10,000 per year at 6% p.a.³⁹

In 1812 a further Rxd.500,000 increase in the capital of the bank was authorised. The Rixdollars were to be issued to the bank in instalments of Rxd.100,000. The loans were to be made available to the local authorities in Cape Town and the districts for the construction of public works. The local authorities were responsible for the payment of interest and the repayment of principal from their local revenues.⁴⁰

In 1814 with the last Rxd.100,000 instalment of the Rxd.500,000 still to be paid over, Caledon's successor, Governor Cradock sought to secure arrange-

36. Copy of Government Advertisement, Records Vol. VI, pp. 358-361. Also BPP, 282, 1827, p. 62.

37. BPP, 282, 1827, p. 63.

38. BPP 282, 1827, p. 61.

39. BPP 282, 1827, p. 63.

40. BPP 282, 1827, p. 64.

ments for the repayment of the Rxd.400,000 issued. ". . . required immediately some fixed arrangements to prevent confusion and keep them in that course of settlement and liquidation prescribed in the following orders of H.M.G. . . ."

Governor Cradock appointed a Committee to investigate the state of the Rxd.500,000 Fund. In his memorandum the Governor noted the indebtedness of the local authorities to the Loan Bank on other accounts and their 'professed' inability to meet their commitments. Cradock himself would not "pursue the present ineffectual system of unfounded hope of receiving interest and a share of the capital but would rather fix the advance as a simple debt alone, not bearing interest and whenever practicable, and the full and just amount of the means of the respective drostdies call annually for repayment."⁴¹

Cradock's finance committee submitted a majority opinion that inter alia an "excess of paper money exists, that an excess of paper money necessarily enhances the price of every commodity", (and) "that to counteract evils arising therefrom the sum of Rxd.500,000 created for the erection of public works should be annihilated gradually and at regular periods."⁴² However the Commissioners noted little change in the management of the bank after 1814. They commented as follows: "It does not appear that any material change was made in the management of the banks subsequent to the year 1814. The system of renewing loans was continued to a late period, and the regulations for their repayment by instalments were but imperfectly observed." Furthermore, despite Cradock's recommendations, the final instalment of the Rxd. '500,000 Fund' was issued by his successor Governor Somerset in 1814.⁴³

The final increases in the inconvertible rixdollar circulation took place in 1822. In July of that year Somerset received reports of severe storm damage in the Western districts of Stellenbosch and Tulbagh. Communications with the more distant parts of the colony were interrupted and the Governor assumed that the damage there was on an equivalent scale. A relief fund of Rxd.400,000 was established to alleviate the damage. Of the Rxd.400,000 half was new paper money issued to the District Boards to be applied by them. The remaining Rxd.200,000 was to be made available by the Loan Bank for more general agricultural relief. For this purpose Rxd.50,000 was transferred from the 'Rxd.500,000 Fund' and a further Rxd.50,000 was obtained from the Somerset Farm Fund. Borrowing was limited to a maximum of Rxd.5,000 per landed property owner who could give 'full security' for the repayment of principal and interest at the usual terms of interest at 6% p.a. and repayments by instalment of 10% p.a. in Cape Town and 6% outside.

Somerset also appealed to the British government for a £100,000 emergency loan. The authorities responded generously with a loan bearing 5% p.a. of £125,000 available in the form of bills on the Treasury. It transpired that the damage was less widespread than was at first feared. Only £35,097 of the loan was utilized and

41. Memorandum by Sir John Cradock, 27th Jan. 1814. Records Vol. IX, pp. 313-315.

42. Report of the Finance Committee to Sir John Cradock, Feb. 14th 1814. Records Vol. IX, pp. 313-315.

43. BPP 282, 1827, p. 65.

Rxd.200,000 of the proceeds of the bills sold were cancelled to offset the emergency increase in the note issue. The Commissioners were not convinced that even the relief provided was of a genuinely emergency nature.⁴⁴

The Loan Bank opened small savings accounts in October 1822. "This facility would enable poorer classes to draw interest on small sums set aside as provision for their old age . . ." The minimum deposit was 12½ rixdollars. Deposits of Rxd.25 and multiples of 25 received interest at the rate of 1% per quarter; withdrawals and deposits could be made on the 1st and 15th of the month.⁴⁵

The Discount Branch of the government bank was established by Governor Caledon in 1808. The discount bank was to supplement the supply of short term credit in the colony which was till then officially available only from the public Vendue office. For this purpose and unlike the mortgage bank, the discount bank could accept deposits from the government departments and the public. Deposits by the Receiver General's office and the Orphan and Insolvent Chamber provided the bank with its initial cash resources. Interest of 5% p.a. was to be paid on private deposits greater than Rxd.1,000 fixed for one year. The Discount Bank would discount the Vendue Rolls, the debts of the Vendue Department, and the registered private bonds known as Kustings at 6% p.a.⁴⁶

Auctioneering was a monopoly of the Dutch East India Company and was retained as a government department by the British administrations. The public sales were conducted by officials of the Vendue Office. Merchants and others made applications to sell their goods by auction and were allocated by ballot the time and place, usually in the streets, for their sales.

Only persons with authorised credit at the Vendue Office could bid at these sales. The Vendue Rolls were then the statement of successful sales and the liability of the government to make settlement on due date. Prompt payment could however be obtained by discounting the Vendue Rolls with the Vendue Department at 10% p.a.⁴⁷ Alternatively it might have been possible to borrow from the Loan Bank on the security of these statements.

At first the demands for discounts on Vendue Rolls and Kustings left the Discount Bank with excess reserves of idle cash. Part of the cash was then employed in extending the 'Short Loan' business of the Lombard Bank.⁴⁸

The rapid development of the Discount Bank followed Governor Cradock's decision to permit the discounting of private bills and deposits in 1811.⁴⁹ This development is revealed in the very full statistics for the Discount Bank collected on behalf of the commissioners.⁵⁰ In 1814 Governor Somerset decided to suspend the payment of the 5% interest on the fixed deposits.⁵¹ The effect of this is seen in the appreciable decline in the bank's stock of deposits and number of accounts

44. BPP 371, 1827, pp. 17-31.

45. Records Vol. 25, p. 161.

46. BPP 282, 1827, p. 62.

47. BPP 282, 1827, pp. 50-51.

48. BPP 406, 1827, p. 10. Also BPP 282, 1827, p. 62.

49. BPP 406, 1827, p. 78.

50. See Table 2.

51. BPP 406, 1827, p. 80.

after 1814. These only regain their 1814 levels about seven years later. While the first interest was paid by the bank only in 1811, by 1814 the bank held Rxd.670,000 interest bearing deposits. The business of the bank did not however suffer any absolute decline. As may be seen from the computed series for the rate of deposit turnover, the bank's smaller stock of deposits came to be used more effectively.

The commissioners criticised Somerset's decision on interest rates: ". . . The establishment of a discount bank, in the year 1808, tended to give greater activity to the circulation of the paper; but the effect was in some degree counteracted by the payment of interest at 4% upon sums deposited in the bank for a year; . . ." ". . . one of the earliest measures of Lord Charles Somerset's administration was to discontinue the payment of interest upon the annual deposits of paper money with the discount bank; and as the transactions of that bank were increased rather than diminished in subsequent years, the paper currency was forced into active circulation and further depreciated in exchange."⁵²

The Commissioners made a similar observation when interviewing the President of the Lombard Bank, Mr. John Marshall: "I observe that the transactions of the Discount Bank have considerably increased of late years, and since the discontinuance of interest that was formerly paid on deposits; do you conceive that this has proceeded from the absence of any means of profitable deposit for commercial capital?" Marshall's reply is illuminating "I certainly conceive that deposits in the bank would be diminished if the colony afforded any available means for profitably investing commercial capital by government securities or otherwise. In the present circumstances of the colony, funds may be profitably invested upon mortgages of fixed property; but the delays attendant on the recovery of the principal render these means of investment convenient only to annuitants, and not to persons engaged in trade or business."⁵³

These arguments of the Commissioners cannot, however, be accepted on theoretical grounds. Deposits at the bank were not idle but were utilized by the bank to finance its portfolio of vendue acceptances and private bills and so the spending of the merchants and individuals discounting at the bank. Deposit facilities provided the wealth owners and savers in the colony with a further alternative to holding financial or physical assets, to undertaking consumption expenditure, or to hoarding rixdollar notes. Paying interest on bank deposits further improved the relative advantages of deposits. The availability of discount bank deposits would have tended to reduce the aggregate volume of hoarding and so have led to an expansion of effective demand.

Discontinuing the interest reward for saving in this form must have similarly tended, other things equal, to increase the demand for other financial assets, direct spending and the demand for notes to hoard. The net effect therefore would tend to be deflationary.

The president of the bank explained that mortgage bonds as an alternative

52. BPP 438, 1826, p. 15.
53. BPP 406, 1827, p. 20.

financial asset were highly illiquid and therefore 'convenient only to annuitants'. (The implications of these remarks on the colony's preference for physical rather than financial assets as indicating inflation or inflationary expectations are taken up below.) The operations of the discount bank had an expansionary effect on economic activity at the Cape primarily because it provided both the government and business sectors with a convenient alternative to rixdollar hoards.

The bank president's evidence to the commissioners reveals the discount bank at the heart of a surprisingly well developed cheque and deposit system. Discounting and banking was however confined very largely to Cape Town.⁵⁴ It appears that the government departments, though not obliged to do so, maintained deposit accounts with the bank.

Payments for imports could be effected by way of British Treasury Bills sold by the commissariat department to finance the military and naval establishment. The commissariat was consequently a very important element in the transaction network. The commissariat did not however, maintain a deposit account. Therefore while payment for Treasury bills was made by cheque the return flow of funds to the monopoly bank would be interrupted.⁵⁵

Other than commissariat bills and merchant bills, other sources of foreign exchange were also private bills sold by Indian officials recuperating at the Cape, and bills issued by the missionary societies. In 1822, the value of commissariat bills sold was Rxd.1,932,855, that of 'Indian' Bills Rxd.100,000 and missionary bills Rxd.75,000. The total value of exports was Rxd.2,012,125 for that year.⁵⁶ The British Treasury had over the period made £33,378 available as loans to the colony though Somerset succeeded in repaying part of the Cape's accumulated debt on this account.⁵⁷

The bills sold by the commissariat were issued in exchange for Spanish silver dollars to meet the ordinaries of the garrison. Officers could choose either to be paid from the local military chest or in English bills through the agency of their regimental headquarters.⁵⁸ The extraordinaries of the station were settled in rixdollars and so the other class of bills was exchanged for rixdollars. All commissariat bills were sold by tender and tenders were called for in advance, usually monthly. As an example of the tender arrangements there is this extract from the Cape Town Gazette and Commercial Advertiser:

Advertisement

Commissariat,
Cape of Good Hope,
26th March 1824.

Notice is hereby given to such persons as may be willing to supply paper currency for bills of exchange, drawn at 30 days sight, by the Assistant Com-

54. BPP 406, 1827, p. 20.

55. BPP 406, 1827, p. 20.

56. W. Bird: *State of the Cape of Good Hope in 1822* (London 1823). (Facsimile Reprint C. Struik (Pty) Ltd., Cape Town 1966), p. 123.

57. *Records*, Vol. IX, p. 322.

58. *Records* Vol. XI, p. 112.

missary General William Hewetson on the Rt. Hon. the Lords Commissioners of His Majesty's Treasury, that sealed proposals for any sum or sums not exceeding 10,000 sterling, specifying the number of Rixdollars, shillings and stuivers offered for the pound sterling, will be received at this office until 12 o'clock on Wednesday next the 31st instant.

No bills will be granted for less than £100 sterling, and those tendering for a larger sum will be expected to express in their tenders the respective amounts for which they wish their bills to be drawn . . .⁵⁹

Bills were not only used to pay for imports but were also the method by which residents could remit savings or profits or repatriate capital to Britain. The Cape was for many of its residents merely a temporary station. What to-day would be defined in the balance of payments accounts as transfer items or outflows of capital, was an important source of demand for foreign exchange in the form of bills on London.

Subject to some qualifications and considerations to be raised below, the price at which these Commissariat Bills were sold for Rixdollars or Silver Dollars (valued at 4s. 8d. sterling) must represent a very good index of the floating rate of exchange of the inconvertible paper Rixdollar. The Bills were distributed to the highest bidders at the prices they tendered. The average prices for the year (given in Table 1 below) were the average of the successful tenders. The figures for the years 1823-1825 show these monthly averages deviating above and below the average for the year.⁶⁰

There were however, early disapproving reports of jobbing in these bills.⁶¹ While the operation of the bill brokers must have improved the operation of the market in bills there were also indications of monopoly practices. Somerset was satisfied that there was open competition for the class of bills issued in exchange for paper Rixdollars. However, he alleged that the Cape supply of silver dollars had been monopolised. The effect of this monopoly would have been to increase the cost in sterling bills of the Spanish dollars. The bill broker 'a monopoliser of almost the only export commodity of the place' then jobbed the bills taking as their 'standard' the value of the bills at the tender.⁶²

The Spanish dollars were obtained previously from the soldiers. It is perfectly likely that in a small business community like that of Cape Town arrangements were made to monopolise the supply of Spanish dollars at the expense of the British government and the remitters. It is also quite possible that the bill broker Somerset refers to was merely an efficient trader in the equivalent of forward exchange.

Somerset attempted to eliminate the jobbing in the bill market by restricting the negotiability of the bills. For this purpose the Assistant Commissary General was instructed to make the bills payable to a specific individual or firm in England.

59. Records Vol. XXXI, p. 433.

60. Cape of Good Hope Statistical Registers 1823-1825. The Government Archives, Cape Town, C.C. 5965-5967.

61. Records Vol. VI, pp. 291-292. Also Records Vol. IX, p. 322.

62. Letter from Lord Charles Somerset to Earl Bathurst, Cape 21st May, 1816. Records Vol. XI, pp. 112-114.

Somerset appreciated that this measure could not prevent private arrangements to offset the effect of the restrictions. However, he felt that private bills arising out of such accommodating transactions would not command the confidence of public bills. In this way the commissary bills would be confined to the 'real remitters' in the Colony.⁶³

Somerset received little support and no consolation from the Secretary of State, Bathurst. Bathurst did not agree to limiting the negotiability of the bills. Nor did he agree to a further proposal of Somerset's to issue bills for silver before the military stocks of silver had been exhausted.

Bathurst did advise Somerset ". . . as the real cause of the unfavourable state of Exchange as it affects the Cape is to be found partly in the deficiency of its exportable Produce as compared with the articles imported, and partly in the depreciation of its paper consequent upon the absence of all metallic currency, His Majesty's Government do not consider any remedy likely to be so effective which does not counteract these Causes. The increasing Industry of the Inhabitants, the improving Cultivation, and the Encouragement recently given here to the Staple produce of the Colony, give every reason to believe that its Exports will at no distant Period approach very nearly in Value to the Articles imported." Bathurst provided some relief in the form of a supply of Spanish dollars ". . . as the price of silver is now sufficiently reduced to render the transmission of dollars from this country to the Cape advantageous it is proposed to remit to the Colony such sums in that coin as may make the government altogether independent of the Broker who has hitherto engrained to himself the purchase of the government bills upon his own terms." Bathurst also permitted the payment of taxes in Spanish dollars at the same rate at which the dollars were issued to the troops.⁶⁴

The concern of Somerset and the other governors for the price of bills was not merely disinterested public service. The senior officials at the Cape were paid the rixdollar equivalent of their sterling salaries. This rixdollar sterling rate of exchange was at first calculated as the average of the three highest tenders received by the commissariat for its bills sold the previous month. Later Governor Somerset amended this calculation to the average of all the successful tenders for bills.⁶⁵ It was alleged that Somerset had in fact artificially improved the terms on which the bills were sold. The commissioners investigated these allegations very thoroughly and absolved the local administration of any blame in this regard.⁶⁶ It is clear that by amending the calculation of the sterling rixdollar exchange, Somerset had in effect reduced his own salary.

It is not clear by what precise method the value of the Spanish dollars at the tender was incorporated in the calculation of the rate of exchange of 'sterling' salaries. The brokers sold the silver dollars to the commissariat for their sterling bills.

63. Records Vol. XI, pp. 112-114.

64. Letter from Lord Bathurst to Lord Charles Somerset, Downing Street, 6th Sept., 1816. Records Vol. XI pp. 164-165.

65. Records Vol. XXXI, p. 431.

66. Records Vol. 24, p. 99 also p. 121. Records Vol. 30, p. 9.

The system of converting sterling salaries into their rixdollar equivalents had the very important effect of protecting the receivers of 'sterling' salaries from the effects of a depreciating exchange on their real incomes. Furthermore, if the general price level had not increased in the same proportion as the price of bills this implied an increase in their real incomes. This did not necessarily mean a destabilizing effect on the exchange rate for there was at the same time a transfer of real income from the taxpayers paying an increased level of rixdollar taxes to finance these increased rixdollar salaries. The overall effect on the demand for imports therefore depends on any difference in the marginal propensities to import of the sterling salary receivers and the taxpayers.

It is more significant that the system of 'sterling' salaries would have made the senior officials less concerned with the depreciating exchange rate. This made it less likely, that for any political reasons, attempts would be made to prevent the depreciation. The officials were of course not directly responsible to local political opinion. The local officials however did not have it in their power to return to a bullion standard.

After the European peace of 1815 a greater proportion of the reduced commissariat expenditure became the responsibility of the Cape.⁶⁷ Somerset was concerned that the reduced supply of commissary bills on London would not provide an adequate market in which the rixdollar sterling exchange could be determined. A further concern was for a sufficient supply of bills to satisfy the remittance requirements of the civil servants.⁶⁸ After 1816, the Cape Regiment was paid in 'sterling'⁶⁹ and in 1821 permission was granted to pay all the troops in rixdollars rather than silver.⁷⁰

A factor of some importance for the analysis of the Cape's balance of payments and the rate of exchange over the period was the remittance policy of the English East India Company. Earlier in the period there is an intimation in a letter from Caledon to Bathurst that the company was to be able to acquire treasury bills at par for the purpose of remitting profits from the Cape trade.⁷¹ This preferential arrangement was not in fact made available and the East India Company was obliged to compete for bills in the ordinary way. The Company's local agent was reluctant to do this. He considered the premium on the commissary bills to be prohibitively high,⁷² though presumably the price at which he sold his eastern goods, reflected the cost of foreign exchange. This reluctance to pay the going rate for bills meant a correspondingly larger Company balance with the Discount Bank. Part, therefore, of the Cape's imports were offset by this accommodating inward flow of capital.

As one method of solving his remittance problem the Company's agent encouraged the development of the Cape as an alternative to Britain as a source of

67. Records Vol. XI, p. 240.

68. Records Vol. XI, p. 337.

69. Records Vol. XI, p. 157.

70. Records Vol. XIII, p. 314.

71. Records Vol. VI, p. 217.

72. See M. Arkin (op. cit.) p. 284.

supply for St. Helena. Shipments to St. Helena from the Cape were paid for by the local agent with a corresponding entry in the branch accounts kept in London. To this extent, the Cape St. Helena trade did not necessarily mean an inflow of foreign exchange but an equivalent reduction of the Company's investment in Discount Bank deposits. In 1823, however, the Company bargained successfully with the bank for the payment of 4% per annum on Rxd.200,000 fixed for 6 months which was then half of the total amount on deposit.⁷³

The opportunity will now be taken to review the period for evidence of price inflation and to re-consider the monetary and financial arrangements that could be held responsible for inflation. Very little direct evidence on the general trend of prices between 1806 and 1825 is available. The very limited direct information on prices collected by the commissioners is rearranged below.⁷⁴ Other than an expected negative correlation between quantities and prices, no obvious conclusions present themselves.

Partly in response to official inducement the export of wines became the Cape's major export commodity.⁷⁵ The effect of the depreciating rixdollar-sterling exchange rate might have been expected to stimulate higher rixdollar prices for wine following the increased rixdollar purchasing power of the bills of the British importers. Other than high prices for ordinary wine in 1817 and 1818, which cannot be attributed entirely to relatively small outputs, it appears that non price variables on the demand for and supply of wine predominated.

It is perhaps possible to impute the general trend of economic activity and prices at the Cape over this period from the other information available. The series for total Sales in Cape Town and Cape District is derived from the accounts of the transfer duties levied on the sales of all commodities including land and property. Total sales could be expected to increase with economic activity and prices. This series shows no obvious indication of inflation.⁷⁶ The volume of colonial revenues from Vendue Duties, Customs Dues, Tithes and transfer duties and Stamp Sales could also be expected to vary directly with commercial activity. The other sources of colonial revenue were largely independent of current expenditure. This series shows a quite marked rate of expansion until 1817 and a levelling off thereafter.⁷⁷ It is of course impossible to say how much of this expansion and that of sales, reflects an increase in real income or in money prices.

The volume of imports itself shows very substantial increases in 1813 and again in 1815. The level of imports for the remainder of the period varies about the volumes established between 1815 and 1817.⁷⁸ A likely explanation for the expansion of imports in 1813 is that this was the effect of a new found confidence among the British merchant community in the continued British occupation of

73. BPP 282, 1827, p. 66.

74. See Table 3.

75. B. J. T. Leverton; *Government Finance and Political Development in the Cape 1806-1834*. Archives Year Book for South African History, 1963, pp. 303-306.

76. See Table 4.

77. See Table 4.

78. See Table 4.

the Cape. The reasons for this optimism seem to have been the conclusions drawn from proclamations issued by Governor Cradock and much further abroad, the failure of Napoleon's Russian campaign.⁷⁹

The importers, of course, must have had the resources or received credit to enable them to finance their increased imports. It would, however, be incorrect to ascribe such a shift of the import demand schedule to predominatingly monetary factors.

The overall economic impact of the Cape government's activities may be derived from the colony's Revenue and Expenditure Accounts. In these accounts new money created would appear as ordinary revenue on the revenue accounts. However, if these notes were distributed by the Loan Bank this would appear again as expenditure. Furthermore, repayments of loans by the Loan Bank or Burgher Senate to the Treasury appeared as ordinary revenue. Similarly, balances from one fiscal year to the next were brought and carried forward. This practice is not very different from present day budgeting procedures where loan repayments and conversions and new loans, as well as surpluses carried forward, are acceptable methods of financing government expenditure. The ratio of revenue to government expenditure is a more revealing indicator of the effect of government spending and tax collecting on the income stream.

One can calculate the net annual effect of the government on economic activity at the Cape in the early 19th century by setting off from the official Revenue and Expenditure accounts all items which would be more appropriately transferred to a 'Loan Account'. The results of these calculations are seen in Table 5.

Government expenditure has the usual income effect. Financing expenditure by the issue of government debt rather than out of taxation has an additional asset effect. The more liquid the asset issued the easier it is for the asset holder to realise the money value of the asset to finance alternative expenditure. Financing government expenditure by the issue of money itself, the notes being the non-interest bearing proportion of the government debt is the most liquid method of financing the government deficit and therefore inappropriate when resources are fully employed.

The Cape administration can be accused of such 'unsound' financing only in 1806 and 1816. In other years issues of money directly or by way of the expansion of the capital of the Loan Bank were covered by current revenues, balances brought forward or repayments of loans. Therefore, one cannot find the reason for any monetary expansion in fiscal mismanagement.

The establishment of the Discount Bank in 1808 and its rapid development after 1811 was the most significant monetary development at the Cape. The deposits of the Discount Bank may be considered as part of the stock of money. Alternatively, the operations of the discount branch may be analysed as increasing the velocity of the rixdollar circulation. The decision of the government departments to use the

79. I am indebted for this suggestion to Professor H. M. Robertson.

facilities of the bank meant that there was no leakage of money, however temporary, out of circulation to the treasury chests. The growth in the money supply and its velocity of circulation obviously took place in the Discount Branch of the Government Bank.

The Discount Bank was criticised for providing easy credit not arising out of the needs of trade. The Bank, however, was a very good judge of credit risks. There were practically no losses from bad debts. The bank president pointed out that credit intelligence in Cape Town was very thorough.⁸⁰ Had the bank been required to maintain the convertibility of its deposits into specie its conception of a good credit risk and the size of the cash reserve would have been different. This, however, is beside the point. The only valid consideration, given the absence of convertibility, is whether or not the easy credit was inflationary.

It should be remembered, however, that an adequate analysis of the monetary significance of bank deposits came much later in the 19th century. The colonial administration could not have been expected to have had the insight to control inconvertible banking deposits. In Britain the Bullion Committee had recommended a return to convertibility primarily because they judged the Directors of the Bank of England were incapable of successfully managing an inconvertible note issue.

The persistent weakness of the Loan Bank as a banking institution was its inability to secure prompt repayments of debts. Extended mortgage credit was part of the way of life at the Cape. The other important institutional lenders, the Church and the Orphan Chamber also had their funds immobilised in illiquid loans. This system of extended credit must have had the effect of discouraging the development of an efficient market in financial assets. By setting a bad example the government bank can be held partly responsible for this.

The evidence of Bank President Marshall confirms that the merchants much preferred physical to financial assets. Fixed interest earning assets were held by the 'annuitants' and the bodies serving them. In the general circumstances it is not surprising that Governor Somerset's 4% debenture offer of 1822 failed completely.⁸¹ These developments therefore should not necessarily be taken as evidence of inflationary expectations. In addition even a real return of 4% would not have been attractive and merchants naturally tend to specialise in physical goods.

The importance of an adequate supply of money and the services money provides for an exchange economy are unaffected by the methods initially chosen to circulate the note issue. Today the note issue partly finances the Central Banks portfolio of mainly government securities. The Loan Bank financed mainly private mortgages. There is no fundamental difference of principle here.

The single most important source of foreign exchange at the Cape was British military expenditure. It was also of course a significant source of direct and indirect incomes. During the times of war the Cape had strategic value. The garrison was strengthened and the colony prosperous. With European peace the Cape soon

⁸⁰. BPP 406, 1827.

⁸¹. BPP 282, 1827, p. 66. Also BPP 406, 1827, p. 21.

felt the effect of British and Dutch economies. Later in the nineteenth century the main reasons for fluctuations in British military expenditure at the Cape were not European conflicts but the periodic disturbances on the frontier. The economic impact of these clashes was wider than the physical destruction on the Eastern frontier itself.

These variations in military expenditure would seem to fit F. W. Fetter's description of unilateral transfer items that represent "a more abrupt and proportionately greater disturbance in our existing balance of payments than do changes in prices or in quantities of goods and services imported and exported."⁸² Only in the narrow Ricardian sense is R. Leslie's judgement valid ". . . even if there was a need for some increase in the circulating medium during the early years, the depreciation which took place shows that the increase was excessive. In any case there was such a fall in the volume of trade after the reduction of the garrison that depreciation could only have been prevented by contracting the issues."⁸³

The effects of this variable military expenditure would alone have made the discipline of fixed exchange rates particularly strenuous. As was suggested previously there were other real (i.e. non-monetary) factors operating after 1806 to increase the demand for foreign exchange. One such factor was the advantage merchants and their customers took of the actual freedom and later increased freedom to import and trade. Similarly the sharply increased volume of imports after 1813 was attributed to the stimulus given to the investment in imports by the firm prospects of a permanent British occupation. In addition there was the significant demand for foreign bills in order to remit salaries or profits to Britain.

Production at the Cape was predominantly agricultural. Supplies of agricultural commodities are not usually price elastic. In itself this is an argument against floating exchange rates for economies based on agriculture. That the rixdollar fluctuated mainly in a downward direction may seem to confirm this. Yet of course a preference for inconvertible or convertible currency could not be exercised by the Cape authorities. The period of the inconvertible rixdollar was one of economic expansion. There is furthermore no evidence of a rapid rate of inflation. The discount bank was, for its period, a sophisticated banking institution which together with an effective market in foreign exchange undoubtedly made a significant contribution to real economic development.

Furthermore, the expansion of the discount bank served to stabilise incomes by counteracting the diminished level of military expenditure and the vicissitudes of agriculture. The stabilising effect of inconvertible deposit banking was unplanned and probably not well understood by a thrifty local authority and an overruling British government concerned, above all, to limit its financial commitments at the Cape. In the author's opinion the period of the rixdollar has been inappropriately judged by its failure to satisfy the (implicit) objectives of the nineteenth century gold standard.

82. Frank W. Fetter, *The Transfer Problem: 'Formal Elegance or Historical Realism'*; in *Essays in Money and Banking* in honour of R. S. Sayers (op. cit.) pp. 64-65.

83. R. Leslie, *Paper Money and the Gold Exchange Standard at the Cape*; in *Report of the South African Association for the Advancement of Science 1916*, p. 162.

The monetary reform at the Cape in 1825 was part of a general monetary reorganisation in the British colonies. At the Cape as in other colonies, the standard coins were to be British silver and copper. However, the rixdollar was to continue to circulate, the intention being to replace the notes only gradually as sufficient silver became available.

The rixdollars were made convertible into bills in the British Treasury at the rate of £103 in rixdollars valued at 1s. 6d. sterling for each £100 Bill. The £3 premium was thought to be roughly equal to the costs of transporting specie. The value of the silver coins in exchange was greater than the market value of their silver content. This was designed to prevent the coins being exported. It was also of course a more economical way of establishing the new coins.⁸⁴

There were very vigorous objections to the decision to value the rixdollar at 1s. 6d. sterling. Over 2,000 colonists petitioned the King to review and reconsider the action. Besides the immediate issue of the rate of rixdollar conversion the petition would seem to have provided the colony with a good opportunity to air a number of grievances and express a general sense of dissatisfaction associated justifiably or unjustifiably with the depreciated rixdollar.

The colonists argued that the liability of the British government for the paper currency could be satisfied only at par i.e. at 4s. It later appeared that the protestors may have accepted a compromise value of 2s. per rixdollar.⁸⁵ The colonists' objections to 1s. 6d. were based on an intimation that the methods of striking the tender price for bills were designed to secure as high a price as possible in order to increase 'sterling' salaries. There was the additional argument that the exchange on India and other countries was much lower than the sterling exchange.⁸⁶

The commissioners were satisfied on the basis of their investigations of the premium on bills, that the obligation of the British government had been fulfilled "by the redemption of the original debt, at the current rate of exchange." Furthermore, the commissioners were "equally convinced that to have redeemed it at a higher rate, after the paper had reached so great a depreciation, would have been productive of great distress, to the community at large."⁸⁷

Fixing the sterling value of the rixdollar at about its average value of the preceding few years was undoubtedly the fixed rate of exchange that would have the least short run repercussions on the real economy of the colony.

The petition of the 'freeholders, Mortgages, Planters, and others interested in fixed and other property in the colony of the Cape of Good Hope, displays a very obvious confusion between nominal and relative prices. It represented a very good if somewhat wordy example of money illusion. The colonists' money illusion may in part have been genuinely derived from habits of thinking in sterling rather than rixdollars.

84. BPP 438, 1826, pp. 3-9. A copy of the Treasury Minute dated 11th Feb., 1825.

85. BPP 438, 1826, p. 19.

86. BPP 438, 1826, p. 51.

87. BPP 438, 1826, p. 19. Also BPP, 438, 1826, pp. 61-62.

An extract from the Petition reads as follows: "When, however, on the 6th of June last, the Ordinance of His Excellency the Governor in Council before mentioned was promulgated, ordering the said silver species to be deemed a legal tender in discharge of all debts, of whatsoever nature, due by and to individuals in the Colony, at the rate of one shilling and sixpence sterling per rixdollar, thereby not only depreciating a coin which was always recognised as equal to four shillings sterling, in every colonial transaction, to $\frac{3}{4}$ of its original value, but for ever reducing in the same ratio the whole value of the moveable and immoveable property, as well as of mortgages through the Colony, represented by this standard, and thereby also rendering permanent and general the evils which before had been temporarily felt and had been confined to commercial transactions only; although it cannot admit of a doubt that had the redundant currency of this colony been annihilated in the spirit of the several proclamations that gave rise to the same, the paper money would have recovered from its depreciated value, and corresponding advantages would have resulted in regard to all fixed and other property; while, by the present measure, the colony would be subjected to a loss of $\frac{1}{4}$ of the whole of its general wealth."⁸⁸

There is no indication in the petition or otherwise that the colonists appreciated the deflationary implications of an overvalued rixdollar. Some groups and individuals would of course have benefited from a deflation, particularly the officials and annuitants dependent upon fixed rixdollar incomes. In general however, the property owners preferred physical to financial assets. The bulk of the mortgages were held by the loan bank and other institutional lenders and the return from real assets would have declined with prices.

As part of their money illusion the petitioners argued that their assets were undervalued while they did not concede that their liabilities were then equally so. Even if they were rationally concerned with their net wealth, in a deflation they would not have been able to realise this, whether valued in rixdollars or sterling. For the owners of rixdollar balances themselves a higher sterling value would have produced a greater sterling wealth effect.

The petitioners did not acknowledge any benefits they may have received through the absence of any strenuous balance of payments discipline. The authorities were held responsible for the depreciation of the rixdollars through excess issues. This, therefore, was no reason for the British government to evade its responsibility to convert the rixdollar at par.

There were an estimated 3,108,000 rixdollars in circulation in June 1825.⁸⁹ The rixdollars remained in circulation but were convertible without limit into bills on the British Treasury issued by the commissariat. The rixdollars so obtained could be utilised in the usual way by the commissariat. However, at the same time British silver coins were also being introduced into the colony by the commissariat. The supply of silver coins therefore reduced their requirements of rixdollars. The

88. BPP 438, 1826, pp. 51-55.

89. BPP 406, 1827, pp. 44-47.

rixdollar balances held by the commissariat represented an outflow of capital and an equivalent reduction in the internal money supply.

Broadly following the recommendations of the commissioners the mortgage business of the Lombard Bank was gradually relinquished.⁹⁰ Payments of interest and principal were not reissued nor were these receipts credited as ordinary Revenue. Repayments were expected at the rate of Rxd.110,000 p.a.⁹¹ Not surprisingly the collection of these debts later proved difficult. A letter from General Bourke to Earl Bathurst refers to a Rxd.95,000 deposits of the Lombard Bank with the Discount Branch being the accumulated repayments of loans made on the Rxd.500,000 Fund account. Bourke proposed to use this fund for the 'current service' of the Colony.

"It may be done more safely now than at any former time as the amount of paper money in circulation has been much diminished by the quantities paid into the military chest for bills in England whilst the specie issued from there has not been equal in amount nor has it all remained in the Colony."⁹²

In 1826 the balance in the military chest amounted to some Rxd.1m. In 1828 Rxd.854,333 from the commissariat funds were destroyed, and in 1830 the military balance was reported as Rxd.378,175.⁹³

It appeared that silver was exported in preference to bills at 3% premium. The premium on bills was therefore reduced to a more competitive 1½% in 1828.⁹⁴ Silver was imported and exported by both the commissariat and private merchants. By September 1841 total military imports of specie amounted to some £342,005 silver and £2,205 copper. However in 1833 the commissariat exported £40,000 silver and again in 1841 a further £60,000, net private imports of silver amounted to about £244,452 by September 1841. The coins in circulation were estimated as between £160,000 – £210,000.⁹⁵

The deterioration of the older rixdollar notes and the detection of forgeries led to the introduction of two further descriptions of paper rixdollars in 1828. From 1832 these new paper rixdollars were themselves replaced by so-called British promissary notes printed in England.

In 1835 the rixdollar was authorised legal tender only at the treasury. In 1840 it was proclaimed that no rixdollar notes would be paid out or exchanged after 31st March, 1841.⁹⁶ In 1837 the Discount Bank received its first private competition with the establishment of the Joint Stock Cape of Good Hope Bank by local capital. In 1843 the Government Bank abandoned its banking business.

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[TABLES 1-5]

90. BPP 282, 1827, pp. 70-74.

91. Records Vol. XXVIII, p. 131.

92. Letter from Maj. Gen. Bourke to Earl Bathurst, Cape, Sept. 11th, 1826. Records Vol. XXVIII, p. 131.

93. Cape of Good Hope Statistical Register, 1828, p. 10. Government Archives, Cape Town. C.O. 5971.

94. C.O. 5971, p. 48.

95. Cape of Good Hope Statistical Register, 1841. C.O. 5983, p. 255.

96. C.O. 5983, pp. 255-256.

TABLE I
AVERAGE ANNUAL STERLING VALUE OF THE CAPE RIXDOLLAR

Year					s.	d.
1808	..	..	..	..	3	3½
1809	..	..	..	..	3	4
1810	..	..	..	..	3	2¼
1811	..	..	..	..	2	9½
1812	..	..	..	..	2	8¾
1813	..	..	..	..	2	6¼
1814	..	..	..	..	2	3½
1815	..	..	..	..	2	3
1816	..	..	..	..	2	1
1817	..	..	..	..	1	9¼
1818	..	..	..	..	1	9
1819	..	..	..	..	1	10¼
1820	..	..	..	..	1	9
1821	..	..	..	..	1	8
1822	..	..	..	..	1	5¼
1823	..	..	..	..	1	6¾
1824	..	..	..	..	1	5½

(There were no commissariat records kept for bill sales in 1806 and 1807. The value of the rixdollar was 'assumed' to be 4s. in 1806 and 3s. 9d. in 1807).

Source: B.P.P./438/1826/ p. 28.

VALUE OF COMMISSARIAT BILLS DRAWN UPON THE TREASURY*

Year					Rxd.
1816	..	..	..	..	1949065
1817	..	..	..	..	1364556
1818	..	..	..	..	1415771
1819	..	..	..	..	1808661
1820	..	..	..	..	1623977
1821	..	..	..	..	1955472
1822	..	..	..	..	1532674
1823	..	..	..	..	1411161
1824	..	..	..	..	1157773

*Unfortunately no equivalent statistics could be found for the earlier years.

Source: Appendix B.P.P./300/1829/ p. 46.

TABLE II
THE ACCOUNTS OF THE DISCOUNT BANK

Year end	No. of Accounts	Deposits Rxd.	Cash Reserves Rxd.	Cash Deposits Ratio	Total Payments 1st Jan. to 31st. Dec. Rxd.	Deposit Turnover
1808	19	211557	106991	.50	533011	2.5
1809	24	296785	104314	.35	2217919	7.5
1810	43	583998	434960	.75	1129736	1.9
1811	71	409877	302316	.74	2021866	4.9
1812	80	871061	193099	.22	4919065	5.6
1813	94	1037283	139604	.13	7185312	6.9
1814	95	1096659	203622	.18	9623103	8.8
1815	75	716533	248560	.34	9056751	12.6
1816	79	710931	199972	.28	6914758	9.7
1817	102	721242	216852	.30	8467159	11.7
1818	123	726866	140668	.19	9824797	13.5
1819	147	864926	174161	.20	10179369	11.8
1820	158	938078	190122	.20	11158775	11.9
1821	175	1005746	157902	.15	11515600	11.4
1822	185	1223130	277887	.22	13127239	10.7
1823	206	1273649	309847	.24	14455205	11.3
Nov. 1824	241	1520334	413782	.15	13675117	9.0

Source: B.P.P. 406/1827/ pp. 12-13.

TABLE III
COMMODITY PRICES AND OUTPUT AT THE CAPE

YEAR	WHEAT		WINE		HIDES EXPORTED		ALOES EXPORTED		IVORY	
	Muids* Reaped	Average price in Cape Market Rxd.	Leggers† returned at the Opgaaf	Price of ordinary wine per legger	Quantity pieces	Average price per piece	Quantity lbs.	Average price per lb.	Quantity lbs.	Average price per lb. Rxd.
1813	135689	104	6724	145						
1814	119882	132	8697	145						
1815	186365	93	14365	130						
1816	187981	68	15398	48						
1817	149206	93	10713	185						
1818	163447	174	12382	135						
1819	178099	171	13543	82						
1820	193435	93	15210	70	3819	5.5	248000	.24	9510	1.9
1821	99275	213	16254	45	2732	5.8	355800	.5	4538	1.8
1822	84108	264	15348	57	16391	7.8	344861	.17	24420	1.9
1823	139926	104	21147	55	15017	7.3	270126	.28	19855	2.1
1824	163027	113	16183	50	12126	8.6	355241	.18	20661	2.2
1825	n.g.	111			29722	10.6	529037	.18	106778	2.1
1826	n.g.	224			40047	7.0	189560	.14	48258	2.2

* 1 Muid = 3.1 bushels

† 1 Legger = 152 gallons.

Source: Appendix to Report of Commissioners of Inquiry, B.P.F./300/1829.

TABLE IV
SELECTED AGGREGATES FOR THE CAPE OF GOOD HOPE 1806-1825

	Total Sales in Cape Town & Cape District Rxd. million	Imports Rxd. million	Import Index 1810=100	Exports Rxd. million	Income from 4 sources Vendue Duties, Customs tithes & transfer duties, Stamps Rxd.	Income from 4 sources Index 1810=100
1806					346596	81
1807		.15	22	.18	372324	87
1808	1.68	.48	72	.43	408473	95
1809	2.74	.39	59	.15	374020	87
1810	3.36	.66	100	.64	429081	100
1811	2.18	.52	79	.63	415150	97
1812	2.91	.65	99	.80	439872	103
1813	3.38	2.13	323	1.01	563056	131
1814	3.11	2.63	399	1.06	657611	153
1815	3.06	4.26	646	1.32	787145	183
1816	3.30	3.55	538	1.60	761121	177
1817	3.25	4.69	712	3.33	879458	205
1818	3.45	4.74	719	3.13	975766	227
1819	3.92	3.59	545	2.26	883810	206
1820	3.58	3.41	518	2.14	976958	228
1821	3.93	4.87	738	2.19	961721	224
1822	3.23	5.08	771	3.12	1070306	245
1823	2.84	4.08	619	2.85	919675	214
1824	2.73	4.68	709	3.02	968536	226
1825		3.94	599	3.20	914311	213

Source: B.P.P./406/1827/ pp. 137-175, pp. 246-255, B.P.P./300/1829/ pp. 34-35.

TABLE V
NET COLONIAL REVENUE SURPLUS OR DEFICIT*

<i>Year</i>				<i>Rxd.</i>
1806			-	92590 (Deficit)
1807			+	68187 (Surplus)
1808			+	181912
1809			-	9812
1810			-	4391
1811			-	121000
1812			+	1312
1813			-	157255
1814			-	69963
1815			-	146297
1816			+	47862
1817			+	54313
1818			+	286475
1819			-	305426
1820			-	117468
1821			+	96624
1822			+	207316
1823			+	47498
1824			-	59961
1825			-	209712

* Balances derived after deleting from official Revenue and Expenditure Accounts all items that were not current revenue or expenditure.

Source: B.P.P./406/1827/ pp. 137-175.