27.10.39 - No. 16.

EMPIRE SECTION

SOUTH AFRICA'S FINANCES

The Hon. J.H. Hofmeyr, Minister of Finance and Education, made an important speech at Johannesburg, dealing with the general policy of the Union Government in the financial and economic sphere.

The effect of the war on the economic system he said, was to provide a stimulus for increases in prices, profits, interest rates, and so forth, and there were of course immediate benefits to be gained by taking advantage of such increases. But these benefits would not be permanent and the day of reckoning would inevitably come. Hence, national interests demanded that such increases should be kept within reasonable limits and the national aim must be to preserve maximum stability in the Union's economic life.

"In these matters and at a time like this, it is essential that we should take a long and not a short view. Above all, we must not allow ourselves to be carried away by a pursuit of spurious immediate benefit into a position where, after the war, the process of returning to normal is made immeasurably more difficult".

For giving effect to this policy the Union was very well placed owing to its strong financial position. Banks, financial institutions, insurance companies, investment corporations and building societies were all in a strong position; "as for the Reserve Bank, it held £112 in gold for every £100 that is owed to the public, including money deposited with it by other Banks. There is no country in the world with such a strong gold backing for its currency". It was against this background that the decision of the Government to raise the price of gold to producers to 150/- an oz. should be viewed.

The Union Government was faced at the end of August with a sudden drop in sterling and had to choose between maintenance of the link with sterling, which meant a similar drop in the value of the Union £. or a breach with sterling. It chose the former course as involving the lesser amount of dislocation, but this involved a further increase in the price of gold. Hence the Government decision to fix the price of gold at the above figure was not a confiscatory measure, but rather an attempt to secure stability based on the maintenance of normal conditions in abnormal times.

After repeating the Government undertaking to deal with the question of an appreciable increase in the working costs on mines when it arises, Mr. Hofmeyr called attention to two further illustrations of the Government's policy to maintain stability: (1) the decision of the Government to bear the cost of maintaining the exchange rate at the pre-war figure; and (2) the decision of the Government to interfere as little as possible with the large programme of capital expenditure on which a start had been made before the outbreak of war.

Furthermore, he said that there were heavy commitments for defence which was swelling daily. "We should not seek to borrow money in London at this time". But this meant that, had it not been for the accruel to the State of the price of gold in excess of a fixed figure, the Government would either have had to cut down their programme of capital expenditure with consequently large-scale unemployment, or to impose substantially increased taxation. Either course would have involved hardship and dislocation and it was clear in the circumstances that the Government decision in fixing the price of gold was the soundest policy and the policy best calculated to maintain stability.

ISSUED THROUGH THE PRESS BUREAU.