The Krugerrand is a coin containing one troy ounce of gold, marketed by South Africa primarily to small investors in Europe and the U.S. Some coins also are sold in the form of pendants and other jewelry. The value of the Krugerrand, which is not used as legal tender in South Africa, rises and falls with the international price of gold--currently about $350 an ounce. The gold for the coins comes from South Africa's 48 mines, controlled by seven major financial groups of which the largest is Anglo-American Corporation. All gold mines are members of the South African Chamber of Mines, an industry organization which recruits African labor, refines all gold, and sells all the bullion produced to the government, which in turn manages all international sales. The Chamber of Mines, through its marketing arm, International Gold Corp., Ltd., is in charge of international Krugerrand sales, which are accomplished through distributors in each country.

In the fall of 1976, Krugerrand advertisements featuring slogans like "the world's best way to own gold" and "an ounce of pure love" began to show up on U.S. television and in all major newspapers. The ads, part of a $1 million campaign undertaken by South Africa's Chamber of Mines, quickly found their mark: sales jumped to thousands of coins a week, and hundreds of banks and stores, as well as all offices of Merrill Lynch Pierce Fenner & Smith, Inc., the country's largest brokerage firm, rushed to stock Krugerrands for sale as gifts or simply to those looking for a safe investment.

Among the more notable successes of the anti-Krugerrand forces to date...
have been the passage of resolutions by city councils in Denver, Colorado; San Antonio, Texas; Chicago, Illinois; and Dayton, Ohio; urging citizens not to purchase the coins. The National Council of Churches, representing most major Protestant denominations, issued a letter to dealers opposing Krugerrand sales, while the National Conference of Black Lawyers prepared a brief arguing against Krugerrand commercials which was submitted to the New York affiliate of one of the three major television networks then airing such ads. Elsewhere, stores in Oakland, California; Brooklyn, New York; and Cleveland, Ohio; agreed to stop selling Krugerrands after picketing by anti-apartheid groups. In Chicago, black-owned Seaway National Bank stopped selling Krugerrands after discussions with a similar group there.

The Role of Gold in South Africa's Development.

Gold has been the primary basis of South Africa's development since its discovery in 1886, playing a central role in shaping South African society. Gold sales overseas traditionally have financed the imports needed for South Africa's rapid industrialization, in the past few years covering about one-third of the total import bill. The gold mining industry itself has played an important role in stimulating the country's internal economy, including the direct employment of about 4% of the total work force.

In recent years, gold sales have been of particular concern to South Africa, embarked as it has been on a massive industrialization plan designed to make the country invulnerable to outside economic pressure in an increasingly hostile world. Harry Oppenheimer, head of Anglo-American Corp., South Africa's largest business enterprise, and a major gold-mine operator, has been quoted as saying "A comparatively high gold price (has become) positively necessary for the country's well being." (Wall Street Journal, September 8, 1975)

The benefits of gold production have not, of course, accrued equally to all sectors of the South African population. To provide cheap labor for the mines, Africans were driven off their land, herded into "Native Reserves," forced onto the labor market by taxes, and rigidly controlled by the imposition of pass laws, which regimented the labor flow.

In 1975, the last year for which a racial breakdown is available, of 377,924 persons employed in the gold mining industry, 37,762 were white and 339,680 were Africans. Gold mining accounts for over half of all mining employment. Current average monthly salaries for whites employed in mining is $563, compared with $124 for blacks (New York Times, July 29, 1977) -- well below the bare minimum of about $150 a month calculated by the University of Port Elizabeth to be necessary for an urban African family. (Financial Mail, May 25, 1977). Moreover, the gap between white and black mining wages is the highest in any industry in the country.

In return for their low salaries, black miners work under highly dangerous and unhealthy conditions. Between 1972 and 1975, according to a University of Cape Town study, there were 2,993 accidental deaths in the mines, and 110,169 serious injuries. (Financial Mail, October 29, 1976)
International Gold Situation.

Until a few years ago, gold enjoyed undisputed primacy in international trade and finance. All major countries continually sought to add to their gold reserves to back their currencies, which were translatable into gold at fixed prices, while gold remained in steady demand for jewelry and industrial purposes. South Africa, with about 65% of the world's known reserves and responsible for about three-fourths of Western production, could depend on a certain market for its primary product. During this period, South Africa annually minted small numbers of Krugerrands for sale to coin collectors.

More recently, however, while industrial and related demand has remained high -- rising 44% in 1976 to equal total world supplies of 1,360 tons (Drexel Burnham Lambert, Inc., Gold Investment Review, April 1977) significant decisions have led to a demonetization of gold, that is, to a reduction in its significance as a medium of exchange and to considerable fluctuations in world prices. In 1968 the seven-nation International Gold Pool introduced a two-tier price system under which an official price of $35 an ounce was set on monetary transactions, but an open market price was permitted for all other transactions, accomplished mainly through the Zurich and London exchanges. In 1973, all official prices were abolished except for purposes of valuing reserves. Meanwhile, the US in 1972 terminated the convertibility of US dollars into gold in official transactions and the International Monetary Fund introduced Special Drawing Rights, for use in international transactions, which were tied to the value of the dollar (later to a group of currencies) but not exchangeable for gold. Both the US Treasury and the IMF subsequently made decisions to sell off substantial amounts of their gold reserves. (The major IMF sale of 25 million ounces will continue through 1980.)

Accompanying these changes have been sharp variations in world gold prices. Between 1974 and 1976, gold prices rose to a high of nearly $200 an ounce, then plunged to $110 an ounce, before gradually starting to climb back to the current price of about $150 an ounce. In 1976, the value of South Africa's net gold output declined to R2.35 billion, down 7.6% from the prior year. Meanwhile, imports needed for the government's self-sufficiency program helped to boost imports to R7.323 billion while exports other than gold reached only R4.84 billion. (SA Reserve Bank figures.)

The South African government, which taxes all gold produced, received only R396 million in gold taxes in 1976, compared with R629 million in 1975. (Financial Mail, March 1, 1977) After-tax earnings (profits) of all gold mines, which are 40% foreign-owned, dropped to R670 million, compared with R797 in 1975. (Drexel Burnham Review)

South Africa, understandably concerned about price and demand vulnerability, has consistently tried to convince major powers that they have made a mistake in de-emphasizing gold. At the same time, it has sought to develop greater interest among individuals in owning gold. The emphasis in such appeals is on the invulnerability of gold to inflation and to the fortunes of changing governments.

Enter the Krugerrand.

In the context of a new world gold situation, South Africa began in the
early 1970's to sell Krugerrands in Europe. Following a US government decision to permit private ownership of gold beginning in 1975, these efforts were extended to the US. "The more Krugerrands South Africa can sell to individuals, the less gold it must auction in London and Zurich," Business Week magazine reported on November 29, 1976. "By lowering the supply on the major gold markets, South Africa can therefore support the price, aid exports, and strengthen its economy."

In 1975, about one-fifth by value of all South African gold produced was sold in the form of Krugerrands — about 4.8 million coins. In 1976, this figure dropped to 11%, or about 2.9 million coins, valued at R329.4 million. (SA government figures). Analysts say the drop in 1976 reflected investors' reduced fear of inflation and consequent return to investments other than gold — principally the stock market — which offer potentially greater returns.

The US accounted for one-half of all overseas Krugerrand sales for the first six months of 1977. Sales in West Germany, which had accounted for half of all sales, dropped off. (The Johannesburg Star, May 7, 1977). A report in the Star quoted in the South African Digest of July 15, 1977 indicated full-year unit sales may not be as high as in 1976.

Whether influenced by the high level of Krugerrand sales in 1975 and 1976 or not, the price of gold did in fact begin to climb in late 1976, as the South African government had hoped it would. This climb continued into 1977. Thus, available evidence suggests that Krugerrand sales have directly supported the current South African regime through their strengthening of gold prices and thus, the South African economy. Over the long run, if South Africa can maintain private interest in owning gold, particularly Krugerrands, it can expect this improved situation to continue, and along with it, the apartheid system.

Karen Rothmyer
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