

LEGACY OF LATE NINETEENTH CENTURY CAPITALISM : THE CASES OF W.R. GRACE AND C.J. RHODES

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For myself, I like the Peruvians; I always enjoy their society... I know [merchant] houses in Peru that were in my time hated as haters of Peru. The policy of our Lima house has always been to be a Peruvian house.

William Russell Grace¹

To save the forty million inhabitants of the United Kingdom from bloody civil war we colonial statesmen must acquire new lands to settle the surplus population, to provide new markets for the goods produced in the factories and mines. The Empire, as I have always said, is a bread and butter question. If you want to avoid civil war, you must become imperialists.

Cecil John Rhodes²

Abstract

The article is about the historical activities of two remarkable men during the last quarter of the nineteenth century who were based in South America and Southern Africa. These men, W.R. Grace and C. J. Rhodes, are compared and contrasted against the background of the developments and changes in late nineteenth century capitalism. In their early years before they died in 1902 and 1904, both men struggled in failing agrarian economic operations and were essentially financially hardpressed. With the speculative financing fuelled by the developing monopoly mining economy, both prospered through wheeling and dealing and through activating their links with big financiers, chiefly those in Britain and the United States. In this way Grace was able to consolidate his W. R. Grace and Co. in the 1860s and gained access to the speculative Peruvian Corporation in the late 1880s. Over the same period, and through similar questionable means, Rhodes was able to consolidate

diamond and gold interests into the formidable De Beers Consolidated Ltd, the Consolidated Goldfields of South Africa, and the infamous British South Chartered Company — which misruled much of Central Africa for the political and economic interests of Rhodes and his supporters. During their life time, and long afterwards, both men's legacies had an enduring impact on the political economy of South America and Southern Africa, especially — Peru, Southern and Northern Rhodesia. In fact their deeds still has a bearing on present day political and economic discourse. The main point emphasised throughout is that the working of late nineteenth century capitalism, particularly the financial aspects personified in Grace and Rhodes, cannot be underestimated in comprehending the political economy of the modern successor states of Peru and Zambia. The conclusion being that even the triumphal populist nationalism of the 1960s could not sweep aside this legacy.

Introduction

In the 1960s there was a great wave of triumphal nationalist optimism in Third World countries about the future. Governments believed, rather naively, that economic barriers erected over a century or so could easily be dismantled by political actions aimed at reclaiming ownership of their natural resources. In 1969, this belief moved the president of Zambia, Kenneth David Kaunda, to declare that, "I shall ask the owners of the mines to invite the government to join their mining enterprises. I am asking the owners of the mines to give 51% of their share to the State..." (Kaunda, Kenneth D. 1969:13-14). The news reached the Zambian public in newspaper and radio reports announcing that "Now Zambia is Ours" (Kaunda, 1970:1).

A year later, Kaunda observed that it was going to be a long journey:

We steered our Ship of State off the dangerous rocks of capitalism. This is a march of determined and dedicated workers, determined to see the Revolution to a successful end (Kaunda 1970:2).

Half a world away, Peruvian military officers had seized power in October 1968 and adopted a stance similar to Zambia. Led by General Juan Velasco Alvarado, the military proposed a *Plan del Gobierno* (Plan of Government) which would remove "The subordination of the Peruvian Economy to foreign

centres of decision, where actions originate which fundamentally affect the economic life of our nation and prevent an autonomous development process geared to the achievement of national objectives". (Fitzgerald, E.V.K. 1976:68). Though phrased in a more militant tone, the steps taken by Velasco were, on the whole, similar to those of Kaunda.

There were good reasons for the difference in tactics. Between 1968 and 1971 a wave of strikes against the miserable working and living conditions spread to almost all branches of the Peruvian economy. Inspired by the example of Chile, under the socialist Salvador Allende, Peruvian workers demonstrated in the streets, factories, plantations and mines. They demanded not only higher wages and better living conditions but also the nationalization of all foreign companies. The military junta found itself in a dilemma. Pressed on one hand by the pace of events and on the other by the desire to reclaim the nation's natural resources, the military leaders panicked and reacted with violence against the workers (Brandenius, C. 1972:206). The junta, however, was subsequently moved to action by the continuing struggle of workers and the transparent, abusive, power of the foreign companies. In contrast to Kaunda who was not as hard pressed, Velasco simply decreed the unilateral nationalization of key resource companies including Cerro de Pasco Corporation, the leading mining company.

The *Peruvian Times*, welcomed the news as "Neither Left, Right Nor Centre". (*Peruvian Times* July 3, 1970:1). This ambiguity reflected the government's inability to state clearly which direction the economy would follow. Like Kaunda, Velasco justified his actions in highly moral and populist terms. Addressing the International Development Bank in Lima in 1971 Velasco spoke about "This Revolution" and went on to state:

We believe we have done our duty and honoured a moral and political responsibility towards yourselves, towards Peru and towards the true cause of our Latin America brother nations (The *Peruvian* 1970:1).

What is clear, however, is a belief on the part of the Zambian and Peruvian leadership that political action alone could undo the past, that history was reversible and that their nations' destinies could be recaptured. In their quest to overthrow the past, Kaunda and Velasco were even willing to sacrifice the existing political and constitutional arrangements. In Zambia, Kaunda

dissolved a powerful but relatively democratic Central Committee of the ruling United National Independence Party and, in 1973, abandoned multiparty democracy for a one-party state. In Peru, Velasco had seized power in 1968, after overthrowing a government considered more democratic than any of the previous regimes (Fitzgerald, 1976:4-6). But the past the two men had inherited, and were attempting to annul, had deep roots going back decades to the last quarter of the nineteenth century.

Gold and Money

The last three decades of the nineteenth century, following the American Civil War, witnessed a general crisis in international finance capital caused not by shortage of capital but rather by the lack of opportunities for profitable investment. One of the indicators of this development was the international position of gold during this period which pointed to the movement and productive use of capital. Before the 1860s when Britain's supremacy in industry and finance was unquestionable, Britain imported enormous quantities of bullion. But in the succeeding decades, there was competition for gold by the newly industrializing European states and the United States of America. Yet the gold reserves in the Bank of England remained low making sterling vulnerable to pressure (Layton, W. R. and Crowther, G. 1938:84). Furthermore, the world's annual gold production remained unchanged and there was even a sharp drop of almost 35 percent during the period 1881-85 (Layton, 1938:85). The pressure on gold was not only due to the declining levels of world production, but also to the increasing productive capacity of the world outside Britain, which accounted for the rate of gold absorption at the time of declining supplies.

Nowhere did the position of gold in the economy change so dramatically as in the United States of America. In the 1870s the United States Congress even passed a law making hitherto unconvertible banknotes convertible into gold at the Federal Treasury. By 1887, as shown below, the United States had become a net importer of gold.

Table 1 : Balance of USA Imports and Exports Gold

Year	Average Annual Balance	Total Balance
1868-72	-£8,350,000	-£41,750,000
1873-77	- 3,780,000	- 18,900,000
1878-82	+ 7,180,000	+ 35,900,000
1883-87	+ 2,040,000	+ 10,200,000
+ = balance of imports		
- = balance of exports		

Source: Sir Walter T. Layton and Geoffrey Crowther, *An Introduction to the Study of Prices*, (London 1938, 3rd Edition), p.84.

The circulation of gold within the United States was further extended by a striking rise in the issue of gold certificates which, according to Layton and Crowther, rose from 25 million pounds sterling in 1879 to 101 million sterling in 1890 (Layton and Crowther, 1938:86). These developments were a contrast to what was happening in Britain. As the United States increased the circulation of gold, Britain witnessed the trebling of credit money deposited in joint stock banks from £133 $\frac{1}{4}$ millions to £380 $\frac{3}{4}$ millions. It was obvious that "Great Britain substituted credit instruments for gold to a greater extent than other commercial countries" (Layton, and Crowther, 1938:83). This situation, of increased circulation of gold outside Britain and the widespread use of credit money within Britain and elsewhere, has been credited by some scholars for establishing gold as a standard value on the international market (Layton and Crowther, 1938:84). Before this period of lavish consumption, the basis of international transactions periodically alternated between silver and gold. Now it was decidedly all gold.

One of the implications that may be drawn from this international movement of gold was that capitalists, particularly in Britain, were experiencing great difficulties in maintaining profitable levels of investment at home. Such difficulties became acute as industry became more and more competitive in the world during the age of imperialism. For consumers, competition had the effect of lowering prices. However, faced with competition abroad and low returns at home, British capitalists were gradually forced from the realms of domestic industrial expansion to that of expanding capital overseas (Cottrell, P.L. 1975:35-40). This Hobsonian expansionism was conducted in the City of London by an interlocking network of few financiers who enjoyed almost unlimited power over the direction of British savings. Working through an

"old boy network" they starved British industry of much-needed finance capital and redirected it to overseas territories where cheap money engaged cheap labour for high profits. At the end of the nineteenth century it was estimated that Britain had more than 50 percent of all its savings in *foreign* investment (Woodcraft, W. 1967:150). Britain's role as a leading exporter of capital was related to declining productivity at home and was the characteristic feature of the last three decades of the nineteenth century. On this, E.J. Hobsbawm has concluded that by 1870 Britain was no longer the undisputed leading "workshop of the world" in the key areas of cotton, pig iron, steel and steam power. The United States and Germany overtook Britain in steel production and Britain "among the industrial powers was the most sluggish and the one which showed most obvious signs of relative decline" (Hobsbawm, E. J. 1968:110).

In spite of the relative decline in industrial productivity, the City of London prospered as leading international finance centre. Increasingly, financial outlets, notably the London Stock Exchange, the dominion and merchant banks, insurance, building societies, and hire purchase finance houses, came to depend on bank notes as a commodity of international exchange (Evans, D. M. 1864:219). Even this role was not immune from prevailing international economic conditions. On the one hand, it was weakened by a long deflationary trend which had reduced prices and interest rates and, on the other hand, by the mounting loss of confidence in British sterling caused by declining gold reserves. Following the near-collapse of Baring Brothers Bank which caused an international banking crisis prompting the Chancellor of the Exchequer, G. J. Goschen, himself a leading merchant banker to warn that Britain's available stock of gold was than other European powers:

For good or evil, the immense liabilities of this country would have to be discharged, in gold... any large amount, withdrawn from such a comparatively narrow base for the weight of so enormous a pyramid, will have an effect quite disproportionate to the extent to which gold is withdrawn or the reserve diminished. (Trewheala, P. 1970:36).

A combination of these factors — declining domestic industrial productivity, deflation, low interest rates, and lack of profitable outlets for surplus capital — gave a misleading impression that Britain was in an economic depression

between 1873 and 1896. This, as S.B. Saul has demonstrated, was "only a myth" (Saul, S. B. 1960:55). Rather, the drying up of domestic investment opportunities was the main problem. Because of these circumstances of low returns at home, men with money to invest were drawn to overseas outlets.

W. R. Grace in South America

It was during the period discussed thus far, that the lives of two men—William Russell Grace and Cecil John Rhodes—became inextricably linked to the political economies of Peru and Zambia. Long after these men had died — Rhodes in 1902 and Grace 1904 — their legacies continued to be influential in the history of both countries. William Russell Grace, simply known as W.R. Grace in later life, had roots in the countryside. He was born in Ireland in 1832 to a landowning family, the son of an Irish father and a Scottish Calvinist mother reputedly possessing an ascetic intellectual mind (Grace, M.S. 1899:9-10). Like many other Irish families, they were completely ruined during the Potato famine of 1846-1848, and emigrated to Lima as colonists (Weeks, L. H. 1898:239). In 1846, before the Grace family sailed to Lima, the young William Russell at the age of fourteen ran away from home in Queen's County, Ireland, and lived in New York City where he worked in a shop.

Shortly after returning to Ireland in 1848, William joined his father, James Grace, on a colonists' ship going to Peru. There William's father failed in his farming efforts and subsequently returned to Ireland. But his son remained working for several merchant houses in Lima and Callao, earning himself a reputation as an aggressive and enterprising salesman. He was known to overcome "all difficulties with the air of an emperor, and kicked or cuffed or bluffed his way up to the top of any circle in which he moved" (Grace, 1899:9). In 1854, at the age of twenty-two, he used his savings to buy a full partnership in a ship's chandlery.

At this time the "Guano Boom" was just beginning. Demand by farmers for fertilizer was increasing faster than available supplies in Europe and the United States (Layton and Crowther, 1938:88). As a natural nitrate fertilizer from accumulated deposits of sea birds on the Peruvian coastal islands, guano was in great demand. The most lucrative deposits were situated on the Chincha Island. Grace and his partner managed to divert guano-inspired business from their competitors by establishing an efficient barge service on the Chincha

Islands. According to some estimate more than 100 vessels stopped on the islands at any given time (Bollinger, W. S. 1972:102). He got ahead by cornering the market on Chincha Islands, "where he lived aboard it and multiplied the sales of his firm. The business prospered" (Grace, J. P. Jr. 1953:12). At first, Grace's business of selling to guano diggers was organised under a joint stock company named Bryce, Grace & Co. When John Bryce sold out after one of the periodic crises, the company was renamed W. R. Grace & Co., a name that has endured up to the present day.

Until the end of the 1870s the mercantile interest of Grace and his partner were primarily with Great Britain, mainly through the private merchant banks of the Baring Brothers & Co. and Rothschilds. But these financial ties were weakened by a series of crises. First, in 1877, the Peruvian government defaulted on its railway debts and this was quickly followed by the disastrous War of the Pacific in 1879-1881, in which Peru was defeated by Chile. Second attempts to reconstruct the economy in the 1880s were stopped by the Baring Crisis of 1890. As a leading merchant bank the threatened collapse of the Baring Brothers & Co. sent shock waves throughout the financial community. South American ventures in which the bank was active got a bad name in London, even though the bank was rescued by the concerted action of the Chancellor of the Exchequer and the Bank of England. After these crises, it was not surprising that Grace's financial dealings shifted from London to Wall Street. The only links that remained with London financiers were those concerned with the distribution of fertilizer (Grace, 1920:2).

This shift reflected Grace's financial reorientation. It dated back to the early 1870s, when he married into the American shipping family of Captain George W. Gilchrist of Maine and migrated to New York, leaving his younger brother Michael to manage W.R. Grace & Co. in Peru (Bollinger, 1972:104). Indeed, from 1868, when Grace moved from Lima to New York, his company gradually lost its British connections and in fact became an important commercial link between Peru and the United States. Although the company maintained offices in Britain the ties with Wall Street, especially the financial industrialist J.P. Morgan, grew increasingly stronger than those with the British commercial houses (American Exporter, 1923:48). Furthermore, as his interests changed, Grace became more active as a capitalist politician. For eight years beginning in 1880 he served as mayor of New York City and sat on many banking and industrial boards of directors some of which interlocked with his businesses.

The merger of finance and capital was also quite evident in the diversity of Grace's Peruvian operations. With profits generated from the ship chandlery's, company Grace expanded into railways, arms, intercontinental shipping and a wide range of internal and external economic links (Flint, C. R. 1923:48). In the early 1890s, Grace concentrated on financing shipbuilding and inter-oceanic trade that would link North and South America — as in 1889, for example, when he formed a joint venture with J. P. Morgan to construct the Panama Canal (Mack G. 1944:233).

The transformation of W.R. Grace & Co. from a British to an American company reflected and symbolized the basic changes in the flow of international capital, not only in Peru, but also in South America as a whole. In the early years of the company, guano was what linked it to British capital. During the 1840s for example, British imports of Peruvian guano rose from "zero to over 200,000 tons" (Hobsbawm 1968:85). Thereafter it was "Guano Boom" up to the War of the Pacific in 1879-81. Before the war, almost 89 percent of Peruvian exports went to Europe and some 60 percent of that was sent to Britain. In contrast, the United States consumed less than 3 percent of Peruvian commodities in 1877. This Peruvian export economy also extended to cotton, sugar and rubber, and at its peak in the 1860s and 1870s, the trade was dominated by W. R. Grace & Co. and a few other Lima merchants (Thorpe R. and Betram, G. 1978:72-79).

One of the many business undertakings in which Grace participated following the earlier example set by the ship's chandlery was the construction of the Central Pacific Railway in the mining region of the Sierra in central Peru. As a merchant and financier, Grace was obviously at an advantage when he signed a contract with Henry Meiggs, an American railway builder. At a terrific cost Meiggs built the railway over the Andes (Evans 1864:219). Grace benefitted from his ties with British bankers, especially Baring Brothers & Co., who, encouraged by the Peruvian export trade, made credit available without considering the feasibility of the project this being part of the underlying cause of the Bank crisis. By 1877 Meiggs was bankrupt and dead, while Grace survived and prospered.

The last two decades of the nineteenth century also saw a shift in the international commodity market, which affected the composition of Peruvian exports and consequently altered the export economy itself. In order to

continue participating in this volatile commodity market the Peruvian government made important concessions to foreign capitalists, which had a great impact on the economy and its people. This was the abrupt transition from crop export to mineral exports, especially after the disastrous war with Chile (Thorp and Bertram 1978). As already mentioned, Peru defaulted on international bonds that the state had obtained on the strength of its agricultural export economy, while the war completely destroyed its domestic economy. Unable to consolidate the debts and guarantee repayment in exchange for the mineral and railway concessions, the government turned to Grace (*Anales de las obras publicas del Peru*, 1890:280-282).

The *Contrato Grace*, as these concessions were called in Peru, was significant because it set the stage for the international struggle to control the mineral regions of Peru. Negotiations for the *Contrato Grace* lasted from 1884 to 1889. At stake were the British bonds which financed the construction of the railway from Callao to the central highland silver mines near Casapalca. Issued between 1890 and 1892 the railway bonds valued at £17 million in 1887 had accumulated interest of £26 million by the end of 1893 financial year (*Anales*, 1890:280-282). Unless a comprehensive plan was worked out to reschedule the debt, the British bondholders would be unable to collect. In 1889, accordingly, a final agreement was reached in which the Peruvian government ceded ownership of the railway to the British bondholders committee and recognized W. R. Grace & Co. as a holder of lease contracts over the mineral region of Cerro de Pasco. In return the British bondholders and W. R. Grace & Co. agreed to extend the railway from Casapalca to La Oroya.

To manage their newly acquired assets the British bondholders formed a holding company, the Peruvian Corporation, in which their bonds were converted into shares. Yet in order to develop their interests, the Peruvian Corporation required an agreement with W. R. Grace & Co. to gain access to the lease contracts over the Central Pacific Railway and some of the mines in Cerro de Pasco. W. R. Grace & Co. agreed to transfer the rights to the Peruvian Corporation in exchange for "one-third of the shares that are remitted in reference to the business that corresponds to said cession or transfer" (*The Economist* 1893: 1440). Another operating company was required to undertake this joint venture. But it was clear that without committing development capital, these financial agreements would serve only speculative interests.

In 1890, following the financial settlement, there was guarded optimism that Peru would again attract foreign capital. Encouraged by several investment projects promoted by W. R. Grace & Co., British capital started to make advances in railways, minerals, oil, cotton and sugar. The *Mexican Financier* of July 4, 1891, listed the 21 companies in which British capital was active: 13 in mines and oil, 5 in railways; 2 in manufacturing. But two years later, these ventures were overtaken by developments on the London Stock Exchange. Following the Baring Crisis, Peruvian and South American investments in general were discredited. The stock value of British bondholders, in for example the Peruvian Corporation depreciated at an alarming speed even in comparison to the defaulted bonds.

The financial climate was also made worse by sudden Peruvian monetary crisis caused by falling silver prices. The Peruvian currency, as many other currencies in the pre-gold standard age, were on the silver standard. For Peru, as a silver producer, the drop in prices not only depreciated the currency, but also curtailed production, which triggered a severe recession in almost all commercial sectors of the economy. Furthermore, the collapse of silver prices effectively ended the flow of British capital to Peru which had been attracted by the silver mines in the Sierra and was the main reason why the Central Pacific Railway was extended to Oroya. The Peruvian government had no alternative other than to revoke the mineral rights held by W.R. Grace & Co., and awarded then to Peruvian entrepreneurs who were eager to develop the mining industry at their own pace. The mood in London was unusually tolerant of the Peruvian actions. The influential *Economist* recommended that:

Investors who lend their money to foreign states at high rates of interest must be prepared for the risks which such rates involve, and not imagine that they will have the additional protection of the British Government and the taxpayers of the country if default be made. If the position were otherwise who would be content with the rate of interest obtainable upon Consols and other "gilt-edged" securities? (*The Economist* 1902:1761).

Without significant foreign capital coming into the country, Peruvian capitalists mobilized internal resources and, between 1892 and 1894, intensive exploratory work was done at Casapalca, Morococha, and Cerro de Pasco. With the extension of the railway from Casapalca to La Oroya in 1893 as part

of *Contrato Grace*. The Peruvian capitalists were also well placed to develop the mines. Before the railway reached La Oroya, ore from the mines was mainly transported on the backs of llama and mules. The Peruvian capitalists were also helped the copper prices on the world market. The price of copper on the London market rose from an annual average of £40 per ton in 1894 to £73 in 1899. Production figures during this period show the efforts made by local mine owners to develop the mining industry.

Table 2 : Copper Production Under Peruvian Capital

Year	Tons
1890	150
1891	280
1892	290
1893	460
1894	440
1895	450
1896	740
1897	1000
1898	3040
1899	5165
1900	8220

Source: *United States Department (PTO) of Interior, U.S. Geological Survey, Mineral Resources of the United States, 6* (Washington, GPO, 1882-1900).

The main question was whether the Peruvians would sustain increasing mineral production. The Peruvian Corporation, as already indicated, had run into financial difficulties and was unable to continue extending the railway line from La Oroya to the copper bearing ore bodies of the interior in Cerro de Pasco. This meant not only that the transportation of bulky ore was expensive, but also the transportation costs of coal for smelting were becoming prohibitive. Coal from fields at great distances from the railway was brought to the mines by llama or mule. The usual practice was for the mine owners to contract with transporters who brought the coal. In the end it was the transporters who were making money out of mining rather than the mine owners.

The Peruvian mine owners were alone unable to finance the extension of the railway to the coalfields, while the transporters had no incentive to do so. In addition to the transportation problem, the Peruvians had by 1898 exhausted the easily accessible ores and had reached the floodline which required requiring expensive drainage equipment for further mining. The transportation and drainage problems were also complicated by the sharp drop of copper prices at the end of 1899 which pressed mine owners to sell out (*The Economist* 1902:1761). Sensing a financial crisis, Pedro y Davalos Lisson of the *Sociedad Nacional de Minería* warned that, "If tomorrow a person should appear in Cerro with one million soles, there is absolute assurance that in eight days he could purchase half of all the mines" (y Lisson, 1901:585). This was exactly what happened.

A consortium of American capitalists put up \$10 million to buy mining concessions in Peru. The Peruvian capitalists were not the only ones who lost control over the mineral resources of Cerro de Pasco. Unable to mobilize financial resources on the level of that of the U.S. financiers, British capitalists lost the initiative they had previously enjoyed in the Peruvian economy. *The Economist* blamed "the lethargic, self-satisfied Englishman" for throwing away "a great opportunity" (*The Economist* 1902:1761).

But it was not only the "lethargic self-satisfied Englishman" who was overthrown by the more rampant North American capitalists. The valiant efforts by an incipient local Peruvian entrepreneurial class to mobilize capital and take control of the commanding heights of the national economy were also overtaken. North Americans, with large liquid assets in search of investment opportunities, made their direct investment both possible and unstoppable. The British dominated the Peruvian economy through merchant houses, whereas the Americans would control it through amalgamated industries, the precursors of multinational corporations. Cerro de Pasco Mining Company was promptly incorporated on 6 June 1902 and destined to control almost 95 percent of Peruvian copper production.

C.J. Rhodes in Southern Africa

Just as American capital was becoming more competitive in South America, so was Southern Africa becoming an open field for international venture capital. With the discovery in South Africa of diamonds at Kimberley in 1867 and gold in the Transvaal in 1886, the attraction of Southern Africa became irresistible. Gold mines, in particular, provided an open-ended outlet for overseas investment and also promised to increase world gold production which had remained constant. For Britain it promised to ease the precariousness of gold reserves underscored by the Baring Crisis.

The person of Cecil John Rhodes, like that of William Russele Grace in Peru, stands out as the one of the foremost British capitalists of nineteenth century Southern Africa. C.J. Rhodes, as he was known in later life, was born in 1853 and developed a "girlish" personality (Shillington, K. nd:8). Cecil was a son of an ordinary vicar in a parish in Hertfordshire, England, and remained there until the age of eighteen. Then, in 1870, pressed by financial and medical problems Rhodes followed his brother Herbert who had settled as a cotton farmer in Natal. Shortly afterwards both drifted to the Kimberley diamond mines, then under the government of Griqualand West, and obtained several digger's claims (De Kiewiet, C. W. 1937:18).

In 1871, as diamonds boomed, Griqualand was annexed by Britain and incorporated as part of the Cape Colony in 1880. The boom also fuelled reckless trading and speculation; at a time when interest rates were less 4 percent, London bankers were granting credit money at 12 percent and more (Schumann, C.G.W. 1938:84). Over-extension of credit and excessive speculation led to a financial crisis in 1873-1874, a mild recession in 1876-1877 and a general depression from 1881 to 1886, which has been described by C.G.W.Schumann as "the most severe South Africa had to endure during the 19th century" (Schumann, 1938:84). Not only did this reflect South Africa's incorporation into the world commodity and money markets, it also indicated the structural changes which were occurring in local production. Diamond mines of small independent diggers, experienced the most severe financial and technical difficulties. It was as C.W. De Kiewiet has stated, "the embarrassment of the small man was the opportunity of the strong" (De Kiewiet 1937:53). One such strong man was Rhodes.

In this period of immense structural changes in South Africa, Rhodes achieved two things that made him the key figure in the history of contemporary Southern Africa. The first was consolidation of the diamond mining industry under his company, De Beers Consolidated Ltd. This followed a drawn out, and sometimes dishonest, struggle for power among various diamond houses especially against Barney Barnato (Mitchell, Sir L. 1910). In any event it was Rhodes who was the victor. Commenting on his business connections, the *Financial News* reported that "it was well known that behind Mr. Rhodes was a great power and from whose fertile brain emanated most of the ideas which were finally adopted and carried out" (Emden, P. 1935:260). Indeed, these alliances remained Rhodes' greatest source of strength.

The second achievement was Rhodes' emergence as an influential politician, the imperialist. In 1882 he was elected to the Cape Parliament and acted as Treasurer in the administration. Before he was thirty three, Rhodes was already a leading figure in Cape frontier expansion into Basutoland (Lesotho) and Bechuanaland (Botswana). He looked beyond and was impatient with "this mapping out of the Cape Colony to the Zambezi" (Schreuder, D.M. 1980). The drive for northern expansion gained momentum when Rhodes became Prime Minister of the Cape in 1890.

The underlying reasons that compelled Rhodes, and other leading Cape financiers, to look beyond the Cape were essentially economic. Up to the early 1880s Rhodes had made profits from diamonds. Some of this money, according to Colin Newbury, was made by hoodwinking the British government and his financial brokers (Newbury, C. 1981). The hoodwinking increased when the immense gold deposits were discovered on the Transvaal's Witwatersrand in 1886, and the Kimberley diamond capitalists transferred their interests to the Rand in a cut-throat competition over choice mining properties.

Reminiscent of the earlier gold rush in California, the scramble for the Rand was intensified by the existence of both out-crop and deep-level gold-bearing ones. Outcrop mines required less effort and expenditure to exploit compared to the scale of capital investment needed to extract gold from deep-levels. But this distinction was temporary. The introduction of new technology in the Rand, had by the mid 1890s, removed some of the difficulties in deep-level mining (Mendelsohn, R. 1980 :157-170). It was

partly a result of the decreasing profitability of Rhodes' gold interests, which were mostly in out-crop mines, and the increasing competition in the Rand from his deep-level rivals, that caused Rhodes to look the land south and north of the Zambezi river.

Believing there was a "Second Rand" beyond the Limpopo which would compensate for their disadvantages on the first Rand, Rhodes wrote to his associates:

I quite appreciate the enormous difficulties of opening up a new country but still, if Providence will furnish new paying gold reefs, I think we shall be all right... as you know, gold hastens the development of a country more than anything... [the North] is very healthy, full of gold and dominates the situation (Schreuder, D.M. 1980:198).

In addition to gold, the North was valued by Rhodes as a source of cheap labour for the farms and mines of Southern Africa.

While the availability of local commercial capital had been instrumental in the Kimberley diamond mines, it was the continued access to international bankers and financiers that could mobilize capital for the Rand on a massive scale to ensure success. Rhodes had this access (Kubiecek, R.V. 1991:67-68). As a dealer Rhodes was able to achieve amalgamation of diamond and gold mining which attracted the continuous flow of funding from such leading London bankers as Baring, Grenfell, and particularly the bullion broker Rothschilds. In his "Finance... the governor of the Imperial engine", R. Turrell, has analysed the connections of Rhodes with powerful London financial interests (Turrell, R. 1987). Thus, Rhodes ventures, including the acquisition of territories, could be supported and sustained irrespective of the consequences. Herein lies the larger meaning of Rhodes.

This was, then, the context in which Southern Africa became incorporated into the world of international finance capital. To realise the dream of a "Second Rand" Rhodes formed the British South Africa Company (the BSA Company, for short), for which he obtained a Royal Charter from the Queen of England in October 1889. The Charter authorised the Company to act on the behalf of the British government. The BSA Company, as R. Robinson and J. Gallagher have argued, was essentially "a gigantic speculation in

mineral futures over which the royal charter cast the mantle of empire" (Robinson, R. and Gallagher, J. 1962:251). As in some of his financial dealing, Rhodes' acquisition of the royal charter was a fraudulent affair. King Lobengula of the Ndebele north of the Limpopo River, and King Lewanika of the Lozi north of the Zambezi River, were both tricked into signing dubious concessions. "I will not recognize the paper as it contains neither my words, nor the words of those who got it", Lobengula wrote to Queen Victoria on 23 April 1889, before the charter was granted, and revoked the document's claims over his country's mineral rights (Schreuder, 1980:241).

Lewanika also expressed similar astonishment when he realized what the BSA Company had done. A trader, George Middleton, himself not a disinterested party, was present when Lewanika was tricked. The King never suspected that the document conceded to the company all the natural resources of his country including sovereignty. This, Middleton wrote, was "at variance with his expressed desires and the wishes of his people" (Hall, R. 1965 :74). When the fraudulent origins of the BSA Company were exposed at the end of 1891, a confidential memorandum submitted to the British government confirmed that:

Her Majesty's Government were misled as to the real position which the Chartered Company, on its formation, was to occupy, and the nature of its interest in the concession or concessions which it was believed would constitute its assets, the actual arrangement being of a nature contrary to what was understood, and apparently incongruous with the particulars of the position recited in the preamble of the Charter (Schreuder, 1980:260).

By this stage the British government was fully committed to Rhodes and to the Charter. Moreover, "Rhodes", in the words of Sir William Harcourt, the British Colonial Secretary, "is a great jingo, but then he is a cheap jingo", at least as an instrument of Empire building (Schreuder, 1980:179).

While he could be used as a "cheap jingo", Rhodes had his own economic interests that motivated him; and both the Empire and Rhodes were in the end beneficiaries. Ian Phimister has demonstrated how the interests were so

inextricably linked so that "Kimberley capital financed much of the early development on the Rand and, to a lesser degree, both centres invested in Southern Rhodesia mining" (Phimister, I. R. 1974:74). The search for gold and labour to enhance fortunes on the Rand was undoubtedly the driving force behind the northward expansion. Although by 1893 hopes of discovering a "Second Rand" had failed, they were kept alive by deceit and trickery. For example, as a means of bolstering confidence in Chartered shares, which were deceptively linked to the Rand, the BSA Company officials hatched a plot to plunder the Ndebele people. Using an "excuse for a row over murdered women and children", the Company resorted to the pillaging of the Ndebele because, in the words of one official, Dr Leander Starr Jameson, "getting Matabeleland open would give us a tremendous lift in shares and everything else. The fact of it being shut up gives it an immense value both here and outside" (Phimister, 1974:79). When the occupation of Matabeleland in 1893 could not bolster the faltering confidence in the future of Chartered shares, "De Beers and other friends" sustained the debt ridden BSA Company with subsidies (Walker, E. A. 1964:246).

The BSA Company's failure on the one hand to find another Rand north of the Limpopo river, and the ascendancy on the other hand of gold over silver as a stabilizer of world currencies, only intensified the mining rivalries on the Transvaal and fuelled further speculation. The "Kaffir Boom", as one financial analysis observed in October 1895, produced the new "shock city" of imperialism:

Some shares have within a few months risen 3,000 percent, although so far they never yielded a farthing in dividends; instances of stocks which quote 1,000 or 1,500 percent of their face value are common and a rise of a few hundred percent during the whole campaign is regarded small and unsatisfactory. Almost every new issue of shares is subscribed for many times over, and in some instances millions of money are readily supplied, without questioning the conditions, purposes for which nobody can define (Van Oss, S. F. 1895:539).

Pointing to the largely artificial nature of these shares, the foresighted visitor warned of the danger of these conditions which were controlled by unscrupulous but powerful rulers. He cautioned that "unless this 'mad boom' is checked, if it is still possible to check it, there will come a day of denouement which must lead to a collapse so huge that the entire business world will feel the shock..." (Van Oss 1895:547). The shock was immediately felt not only in South Africa, but also in areas as far as south and north of the Zambezi River.

Conspiring to overthrow the Boer government in Transvaal to install "one more easily manipulated by the mining industry", men linked to Rhodes' gold interests launched the disgraceful Jameson Raid in 1895-1896 (Mendelsohn 1980:170). In 1896-1897 the same forces brutally crushed an uprising by the Ndebele and Shona people and stole their cattle. A similar fate befell people north of the Zambezi River, notably the torture and pillaging of the Ngoni people in 1898. In this way Southern Africa was set on a path of brigandage and plunder for the remainder of the nineteenth century, culminating in the Anglo-Boer War of 1899-1902. Schreuder has concluded that this war "represented the final collapse of attempts to divide power and resources in South Africa" by diplomatic means, and that at "its core was the invisible question of who was to rule and exploit the resources of Southern Africa". For African people the consequences, as already indicated, were painfully felt even before the war (Schreuder 1980:315). Lord Milner, himself the foremost strategist and tactician of British imperial interests in Southern Africa, recounted in 1897 how "The Blacks have been scandalously used", by Rhodes and his agents (Ranger, T. 1964 :126).

Conclusion

The point, however, is that Rhodes as well as Grace, personified late nineteenth century capitalism. Running through their lives, and bearing remarkable resemblance, is a common thread. Though this was later grossly mystified by commentators and scholars, both came from very hard pressed economic backgrounds — with Grace being the most desperate. They entered the local economies of South Africa and South America essentially through parasitic practices of buying and selling. Grace sold to boom time guano diggers and manipulated the market. Aspects of landlordism are also clearly discernible in their railway development schemes.

Using the BSA Company as a vehicle, Rhodes shamelessly speculated on railway extension from Kimberley to Katanga and from Southwest Africa to Angola in order to "prop up...faltering Southern Rhodesia interests" and to boost his political ambitions (Phimister, 1974:85 and Mokopakgosi, 1988:301). For Grace, the *Contrato Grace* stands out as one of his most controversial and complex projects. It embroiled Peruvian politicians in corruption which resulted in the acquisition of extensive mineral rights by Grace's Cerro Corporation, mainly through speculative financing of railways. In these shady deals many business associates and competitors were ruthlessly driven to bankruptcy, and even death as in the well known cases of Meiggs and Barnato.

Although they had contrasting private lives, both Rhodes and Grace were very adept at managing other men, and lucky in building influential links for very profitable ends. The celibate Rhodes surrounded himself with useful bachelor friends like Pickering who contributed immensely (Davidson, A. 1987: 26-79). So did the Grace, whose family circulated within a close-knit circle of patricians of the likes of the Morgans in Wall Street. At their pinnacle both became politicians, with influence befitting that of statesmen on matters of war and peace. Behind most crises, raids and wars that took place in Southern Africa from the 1870s to his death in 1902, Rhodes' name or his interests were involved. This includes the many unpleasant consequences of the search for the Second Rand. The Baring Crisis is to Grace what the Second Rand became to Rhodes. Grace's guano inspired interests were at the centre of the disastrous 1879-81 War of the Pacific between Chile and Peru.

To my mind, therefore, the larger meaning and explanation for the activities of Rhodes and his agents, as well as his far off counterpart in South America can not be understood fully by looking at them simply as strong-willed individuals with their individually stated objectives and motivations. In any case, history cannot easily be remade; it can only be re-interpreted and explained. Situating Rhodes and Grace in their historical context is important. This context, as restated here and reaffirmed in much recent historiography, includes the central role of international finance capital and the leading part played by gold in the working of the world economy during the last three decades of the nineteenth century (Marks S. and Trapido, S. 1992). An astute contemporary observer, J.A. Hobson, best articulated this

historical context. "Nowhere in the world", Hobson wrote, "has there ever existed so concentrated a form of capitalism as that represented by the financial power of the mining houses in South Africa" and suggested that:

The newness of the country and the absence of any earlier growth of strong vested interests have enabled these financiers, drawn from all the European countries, to develop the latent powers of pure finance more logically than elsewhere... (Hobson, J. A. 1966:276).

What Velasco in Peru and Kaunda in Zambia confronted almost a century later and desperately sought to overthrow in a fit of populist nationalism, as I have suggested at the beginning of this paper, was indeed a legacy they both inherited which could be traced to the observations made by Hobson at the time of the Anglo-Boer War.

NOTES:

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