RESERVE BANK INDEPENDENCE

By ***Ben Turok***

The current furore about the South African Reserve Bank (SARB) has a long background. Unfortunately the Public Protector mixed up her proposals for the bank's objectives with questions about the Bank's prime role in the economy, a different issue.

In 1998 the Finance Committee in Parliament set up a multiparty task team to examine the "nature and functions" of the Bank and tabled a lengthy report (4 August 1998). We found that our Reserve Bank was similar to many other central banks around the world and faced similar challenges namely, to protect the value of the currency "in the interest of balanced and sustainable economic growth". The latter phrase is subject to different interpretations and has led to a great deal of debate.

In the United Kingdom the 1998 Act provided the following objective for the Bank: "To maintain price stability, and subject to that, to support the economic policies of Her Majesty's Government, including its objectives for growth and development." The United State Constitution has a similar phrase about supporting employment. But what is agreed by most is that the primary objective is price stability

What seems to have been most controversial is the notion of independence. Our findings, based on thorough interactions with Governors in five countries, were that no Central Bank is completely independent. Our Constitution correctly requires that "there must be regular consultation between the Bank and the member (Minister) responsible for national financial matters" (section 224 (1) and (2).

Ben Turok

In other countries, the practice of consultation goes much further and includes regular meetings with the heads of commercial banks in order to be fully briefed about issues in the private sector. Indeed our conclusion was that the pressure for policy independence arises from a fear that a government might try to move to an expansive economic programme for populist reasons without taking due care about protecting the value of the currency, which could lead to high inflation among other problems.

Nevertheless there is broad agreement that "goal independence", namely broad economic policy belongs to government, but instrument (or operational) independence belongs to the Bank. There should be no day to day interference. But the two institutions have to work in tandem in order to fine tune macro-economic policy in the national interest.

Chris Stals, former Governor of the SARB put it nicely in a speech to an international meeting of Central Bankers. "The Central Bank is normally made accountable to the sovereign authority, it cannot be a power in isolation. . . it executes its function in the interests of the total community". And he preferred the term "autonomy" to "independence".

This means that if an economy slides into a recession, as is the case in South Africa this year, with serious consequences for the people, it may be necessary to relax tight monetary policy in order to stimulate the economy. Such a decision would have to be taken by the Cabinet, albeit in consultation with the Reserve Bank. But for the Bank to focus solely on price stability, essential as this is, is to abandon a huge part of its other mandate.

NA