

SOUTH AFRICA NEEDS A SENSIBLE DEBATE ABOUT ITS RESERVE BANK. HERE'S A START

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Debates on monetary policy in South Africa over the last couple of decades seem to have come from a madhouse. First, in the 1990s the country had old discredited Washington Consensus policies rammed down its throat. This was done with little regard for alternative progressive ideas and little or no democratic debate or public participation.

And then recently the country's Public Protector, Busisiwe Mkhwebane released a report that made sweeping populist recommendations about the South Africa Reserve Bank. The report favoured revising the country's constitution and a binding recommendation for a monetary policy regime that excludes any reference to price stability. A mandate like this simply doesn't exist in any comparable country with a well-developed private banking system.

To put the report in context we want to focus on basic monetary policy principles that have been debated for centuries by serious thinkers and scholars. We also explore how South Africa can move the debate forward constructively and responsibly.



Broadly, thinkers on monetary policy can be considered on a scale with “sound money” advocates on the one side, and those concerned that money and banking must serve the productive economy – let’s call them “serve-society” advocates – on the other.

We locate ourselves unambiguously on the “serve-society” side of the debate. We agree with William Lowndes who served in the British Treasury in 1695, who said that money supply must serve society. Thomas Attwood in the 19th Century, John Maynard Keynes, the trade union leader Ernest Bevin and Hyman P Minsky in 20th Century, concurred.

Unlike Mkhwebane's report, these economists, particularly Keynes and Minsky, understood that currency and money markets under capitalism have a nasty tendency to be unstable. That's why the regulatory and lender of last resort function of the Reserve Bank is so vital. (When the operations of the inter-banking lending market cease to operate, the lender of last resort is the entity – usually a Central Bank – that has sufficient liquidity to lend to banks short of funds.)

The South African Reserve Bank has performed these roles moderately well for almost a century. The country hasn't had a systemic banking crises since the formation of the Reserve Bank in 1921. Experts in the field Calomiris and Haber, 2004, find that South Africa is among the most stable top 13 banking systems in the world. The Reserve Bank should take credit for much of that.

That doesn't mean that it's beyond criticism which is why a serious debate is needed. The debate doesn't need to rely on the ideas of fringe adventurers and crackpots. The country has a wealth of intellectual talent on monetary and central banking policy inside and outside its universities that straddle the ideological spectrum. ➤

The country's public intellectuals in the unions and in civil society organisations have excellent ideas on central banking and monetary policy. Ordinary citizens should be drawn in too.

One thing is clear: things cannot remain as they are because so much is changing in the world of central banking and in economic life.

THE TWO CAMPS

Sound money thinkers tend to view banking as just another business, best left to the free market. Historically sound money economists have preferred deregulation of the banking system. But since the spectacular collapse of thousands of banks in many parts of the world in the 1930s, and the banking and financial crises after 2008, very few now propose abolishing the lender of last resort function of central banks.

Sound money economists now want central bankers bound by rules, rather than allowing for discretion. But they still focus on the virtues of trade and private finance.

For their part, "serve-society" advocates worry about production, employment and growth.

Keynes – by no measure a crank or a crackpot – was very much in favour of adjusting monetary and fiscal policy where necessary. He was a passionate advocate of sound banking and financial regulation because he understood the inherent instability of capitalism. He warned that getting it wrong could massively increase poverty and unemployment.

In 1933 he proposed three safeguards when shifting economic policy priorities: First, don't be doctrinaire. Secondly, he maintained that "the economic transition of a society is a thing to be accomplished slowly". And thirdly, don't allow "intolerance and the stifling of instructed criticism". For those not in public office he offered this final piece of advice:



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Words ought to be a little wild – for they are the assault of thought on the unthinking.

A CHANGING WORLD

Conventional notions of what central banks are, and of what they should do, face a number of challenges. For example, the processes of technological innovation, including the growth of crypto currencies like Bitcoin, are rapidly reshaping some of the core functions of central banks.

And over the last three decades a number of economic factors have forced central banks to review their roles. They've had to do so to align their functions with other states in the wake of greater economic regionalisation, the creation of monetary unions and the establishment of regional central banks.

The events of 2008 also shook confidence in the ability of central banks to use their reputedly vast capacity and skills to predict and head off the crisis. This has been particularly true as far as their regulatory responsibilities to promote financial stability are concerned.

As pointed out by Princeton Professor and former deputy-Governor of the Banque du France, Jean Pierre Landau, a return to the status quo ante in respect of central bank policy

is neither desirable nor indeed feasible.

Despite this warning the status quo ante is being defended all over the world as if nothing has changed, and as if all is well in our economies.

LET THE DEBATE BEGIN

After the release of the Public Protector's report the Governor of the South African Reserve Bank, Lesetja Kganyago, offered the potential space to begin a serious debate about South African monetary policy aimed at creating a more inclusive and prosperous society and economy.

But, he warned, such a discussion would have to be based on "evidence and sound analysis".

In our view ideas must come from across the ideological spectrum. And they must be debated in legitimate and properly structured forums. One place to begin the discussion would be Parliament's Portfolio Committee on Finance.

Other structures – such as the Reserve Bank's Monetary Policy Forums (as proposed by the governor) and forums led by business, labour and civil society organisations as well as universities – need to keep up the momentum.

There must be no place for defensive postures, arrogance or condescension. The debate must be guided by one overriding objective: to improve the quality of life of the many South Africans for whom the end of apartheid has brought no real material change, it must consider the impact of change on employment, investment and growth.

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