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NEVA MAKGETLA: Yell of 'fire' should not provoke retreat from what needs to be done

Risk-averse strategies in response to populism cannot deliver the profound changes we need, including in monetary policy

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11 JUNE 2019 - 05:09 by NEVA MAKGETLA



The Reserve Bank. Picture: SUPPLIED

A century ago US Supreme Court Justice Oliver Wendell Holmes wrote that yelling “fire” in a crowded theatre exemplified abuse of free speech. It can lead to panic, stampedes, even deaths.

It makes a difference, however, if there really is a fire. The person shouting “fire” may be stirring panic, and you may try to shut them up. But you still need to put the fire out.

Similarly, the recent loose talk about the SA Reserve Bank should not obscure long-standing concerns about its mandate. There is a real risk that in response to populist claims, the government and business retreat into risk-averse strategies that cannot deliver the profound changes needed in the SA economy.

Concerns about the Bank’s mandate reflect the hard choices pundits like to talk about but rarely specify. Historically, economic growth has brought inflation, although the link has weakened a lot since the late 1990s. Conversely, raising interest rates to control inflation typically dampens investment, job creation and wage increases.

In SA, Reserve Bank policy has often focused on the exchange rate rather than

inflation alone. A weaker rand may foster inflation by pushing up the price of imports, and it can deter short-term capital inflows into the stock market and bonds. But it can also boost local manufacturing by making it easier to compete against foreign competitors both at home and abroad.

During the commodity boom the bubble in global mining prices meant the SA economy grew strongly despite the strong rand. However, the crash in metal and coal prices after 2011 resulted in a sharp depreciation. The rand's decline provided a crucial mechanism in the adjustment to lower export earnings. It enabled growth in new areas, notably in food processing, carmaking and services, as well as the survival of mining and metals. Zimbabwe's experience underscores what can happen when export prices slump and a country cannot depreciate (because it uses US dollars).

The constitution reflects the fundamental quandaries around monetary policy. It says the Bank must "protect the value of the currency in the interest of balanced and sustainable economic growth". In the early 1990s ANC negotiators considered that wording as a reasonable compromise. They argued that instead of making protection of the currency an objective in itself – the position favoured by the apartheid state – the constitutional mandate required consideration of broader economic impacts.

Since those innocent days interpretation of the constitutional mandate has become a point of contention within the government as well as the ANC. Some policymakers believe the wording means protecting the value of the currency will automatically lead to more balanced growth; others that it requires a consistent evaluation of monetary policy in terms of its effects on competitiveness, industrialisation and job creation.

The current economic downturn raises the stakes in these debates. SA faces the classic choice between a conventional macroeconomic policy, which prioritises cutting fiscal deficits and minimising inflation, and the need for active measures to counter the economic slowdown. These choices are even tougher here than in the rest of the world, since SA's uniquely high joblessness and inequality mean any downturn in growth, job creation and social spending has devastating social and political consequences.

Populist sloganeering is not aimed at serious policy solutions, however. Rather, its goal is to mobilise supporters by promising grand – but ineffective – symbolic gestures to counter the injustices of the SA economy. Adherents often enjoy their opponents' outrage, even if it undermines more practical measures.

In practice, developing and implementing transformative economic strategies requires consistent engagement with the centres of economic power. As with any negotiation, that requires discipline both in the government and the governing party.

Populist provocations are certainly not helpful in this context. But they don't justify a retreat from efforts to bring about the deep structural changes needed for SA to achieve both sustained growth and social cohesion.

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