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Can progressive macroeconomic policy address growth and employment while reducing inequality in South Africa?

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Abstract

This article aims to set out some progressive, mainly post-Keynesian, macroeconomic policy ideas for debate and further research in the context of macroeconomic challenges faced by South Africa today. Despite some successes, including at reducing poverty, the South African economy has been characterised by low growth, rising unemployment and increasing inequality, which together with rampant corruption and governance failures combine to threaten the very core of the country's stability and democracy. The neo-liberal economic policies that the African National Congress–led government surprisingly adopted in 1996 in order to assuage global markets sceptical of its historical support for *dirigiste* economic policy, have simply not worked. Appropriate progressive macroeconomic interventions are urgently needed to head off the looming prospect of a failed state in the country which Nelson Mandela led to democracy after his release from prison in February 1990. What happens in Africa's southern tip should still matter for progressives all around the world. The article draws on both history and theory to demonstrate the roots of such progressive heterodox economic thinking and support for a more carefully coordinated activist state-led macroeconomic policy, both in general terms and in the South African context. It shows that such approaches to growth and development – far from being populist – also have a rich history and respectable theoretical pedigree behind them and are worthy of inclusion in the South African policy debate.

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Introduction

It is 10 years since the dramatic collapse of Lehman Brothers Holdings precipitated one of the most severe financial crises in modern economic history. Some progressive scholars hoped, even expected, that the crisis in financial markets, and in the real economy, would bring down the edifice of neoclassical economics, around which a seemingly impenetrable 'new consensus macroeconomics' had been constructed. It is worth remembering that in 2003, economics Nobel Prize winner Robert Lucas, Jr. confidently concluded that 'macroeconomics … has succeeded – its central problem of depression-prevention has been solved for all practical purposes' (in Mitchell and Fazi, 2017: 173); furthermore, in 2009, the International Monetary Fund's (IMF) Oliver Blanchard (2009) was able to claim that the 'state of macro' under the new consensus was 'good' (p. 1).

Progressive and heterodox economists expected that the global financial crisis (GFC) would see the end of the stultifying policy-speak associated with this world view.[1] Yet, 10 years later, progressive economists of all kinds – from neo-Marxists to post-Keynesians, from neo-Ricardians to evolutionary and institutional economists – are still fighting the juggernaut, that is, new consensus macroeconomics in whatever form it appears, both in the universities and in policy-making institutions such as national treasuries and central banks.

This article has a modest aim to set out some heterodox, mainly post-Keynesian, macroeconomic policy ideas for further debate and research in the context of severe macroeconomic challenges in post-apartheid South Africa, characterised for most of the last quarter century by low growth, rising unemployment and increasing inequality which have combined to threaten the very stability of the post-apartheid democratic project ushered in under the leadership of Nelson Mandela. The African National Congress (ANC)-led government, under pressure from domestic and international sources, adopted the incongruously named growth, employment and redistribution (GEAR) programme in July 1996, an essentially orthodox neo-liberal programme which has delivered limited price stability but not growth, employment, redistribution or currency stability. My assertion is that unless we have a supportive and progressive macroeconomic framework, many other economic and social policy interventions for addressing growth, employment and inequality will likely fail to gain much traction for budgetary and related reasons.

I draw on both history and theory to demonstrate the early and respectable roots of such heterodox economic thinking and support for a more activist state-led macroeconomic policy. Those supportive of alternative heterodox policy ideas are often and quickly labelled macroeconomic populists or madmen (not least in contemporary South Africa), and I aim to show that such approaches to growth and development also have a rich history and respectable theoretical pedigree behind them.

I comment briefly on the American New Deal and the policy recommendations of the ANC-led Macroeconomic Research Group (MERG). Both were examples, in very different eras, of progressive macroeconomic policy interventions based on a state-led investment and 'crowding in' approach to development in direct contrast to a private-finance, market-led and 'crowding out' neoclassical orthodoxy. The first succeeded beyond the imagination of most through a combination of the genius of John Maynard Keynes' ideas and the political mastery and will of Franklin Delano Roosevelt; the second, despite sound policy ideas, was unceremoniously dumped by the ANC political leadership on the grounds that there was no alternative at that time to the dominant orthodox view. This is followed by a consideration of some heterodox, mainly post-Keynesian, policy ideas, before we end with a few crisp and possibly provocative policy proposals aimed at generating further research and debate around growth, employment and inequality and at forcing a re-think of the current orthodox and conservative approach in the South African context.[2]

This article is inspired and framed by views such as those raised by Mariana Mazzucato (2018) and a recent paper in this journal by Pascale Tridico and Walter Paternesi Meloni (2018). Mazzucato (2018) has argued 'that it [is] futile for countries to think that they can "cut" their way to growth, given that a key driver of economic growth has been public investment in areas like education, research and technological change' (p. xxi). A lot more can and should be said about the roles of education, health, early childhood education and technological change in terms of an intersectional approach to inequality and growth and in the context of the much talked about fourth industrial revolution, but this will have to be sacrificed in this article to allow us to focus on macroeconomic policy.

Tridico and Meloni examine the challenges of economic growth in the context of globalisation and the GFC for developed countries. They argue that state social spending is not, as neo-liberals would have it, a drain on competitiveness and an obstacle to economic efficiency, but that such state expenditures can stimulate growth alongside reducing inequality (Tridico and Meloni, 2018).

A few years after the Lehman Brothers crash, a paper was published by Carmen Reinhart and Kenneth Rogoff (2010) in which the authors purport empirically to show the negative consequences of rising public debt on growth. In this now-famous and influential paper, published in the world's top mainstream economics journal, the *American Economic Review*, Reinhart and Rogoff argue that over the period 1946–2009, advanced economies with a public debt-to-gross domestic product (GDP) ratio above 90% had an average real annual GDP growth of −0.1%. Where this ratio was at lower levels, average annual growth ranged between 3% and 4%. Public debt levels of such a magnitude were, in other words, bad for growth. This is a key argument behind what constitutes the treasury or orthodox view of economics.[3]

It is not my intention fully to engage the Reinhart and Rogoff debate here, save to use it to show that policy-makers concerned about growth and inequality can be spooked by such paralysing analyses, leading them to hand total control of monetary policy to an independent central bank, to reject any activist role for fiscal policy and to funnel all attention on reducing public debt to the almost total exclusion of growth-enhancing public investments. That appears to have been what happened under the ANC in South Africa since 1994. It is time for some degree of pragmatic rebalancing.

The historical origins of the orthodox Treasury View

Perhaps the earliest popular term to describe the essential character of economic orthodoxy is the 'Treasury View' – a term attributed to Keynes in reference to Churchill's defence of austerity in the early years of the Great Depression.[4] A defining feature of the Treasury View is the reduction of the public debt and the budget deficit as a percentage of GDP at all times. The argument is that such austerity will not adversely affect the economy, rather that the opposite will happen as government cuts will be met by increased private-sector spending. Increasing the budget deficit will, in this view, 'crowd out' more productive private investment and should be strongly discouraged.

Fiscal restraint, holding down expenditures and public debt, tightly controlling and directing the public purse, opposition to capital controls, support for sound money and private bankers – these are just some of the core policy content of the Treasury View everywhere. But there is more to the Treasury View than this conservative fiscal focus, some of which is very important to recognise.

For the central dilemma we have faced for many decades in thinking about treasuries all over the western capitalist world lies here: tiresome in their insistence on fiscal restraint above all else, but crucial in the eternal fight against wickedness, the kind of wickedness so prominent in our public life today, not least in modern-day South Africa. So, can a case be made for redefining fiscal policy in a more progressive direction while retaining the treasury's essential watchdog role against wickedness and profligacy?

State-led economic policy in history

Defenders of free market, neo-liberal policy love to cover themselves in the cloak of 'respectability' that most mainstream university economics departments and business schools give them. They tell us that theirs is the only game that finance ministers can play, without risking ruin and inviting wickedness. We are told that the only responsible choice involves small government, balancing the budget, tight, sound money and the free international movement of goods, capital and people. The rest is just 'macroeconomic populism', the choice of madmen unschooled in the history of economic thought and theory. None of this is true.

The truth is that models of state-led investment in the national economy are as respectable and as old as their laissez-faire alternatives, possibly even older. Let us look at a few examples. In his path-breaking treatise of 1613, Serra called for an active government promoting manufacturing enterprises that would enjoy ever-advancing technology and indefinite declines in unit costs (Sumberg, 1991: 365; Reinert, 2005). Mercantilist writers, very much aware of the importance of the state's role in an economy, included Thomas Mun, a director of the East India Company, whose writings in the wake of the severe depression of 1620 apparently roused the government to embark on unparalleled activity in support of local cloth production and trade (Supple, 1954: 91).

A contemporary of the classical economists, Thomas Robert Malthus (1766–1834) argued in favour of the need to maintain aggregate demand and to support key sectors of the economy like agriculture – an argument which his great friend Ricardo could not grasp. Best known for his Theory of Population, Malthus is referred to by Keynes himself as the 'first Cambridge economist' and 'the grandfather of his own theory of "effective demand"', noting that 'if only Malthus, instead of Ricardo, had been the parent stem from which nineteenth-century economics proceeded, what a much wiser and richer place the world would be today' (Keynes, 2015: 489–490). Thomas Attwood argued for policy to support industry, and Friedrich List wanted the state to establish a well-developed railway network and tariffs to help infant industries. Then came John Maynard Keynes – with his Cassandra-like warning around 1930 about the catastrophe that a free market, gold-standard orthodoxy and fiscal and monetary policy austerity would likely bring.

The New Deal: A successful state-led approach

In *The Money Makers: How Roosevelt and Keynes Ended the Depression, Defeated Fascism, and Secured a Prosperous Peace*, Eric Rauchway (2015) analyses Roosevelt's New Deal. Arriving in the White House in early 1933, in the midst of the Great Depression, Roosevelt took the United States off the gold standard (the favoured monetary mechanism of the sound money men); he devalued the dollar but ensured that all paper profits from the devaluation would go to the treasury; and he targeted growth and employment and went hard at the biggest economic challenge of his time, 'deflation', to secure a sustainable economic recovery. He did this backed by Keynes' ideas conducted through a regular transatlantic correspondence.

Urged on by a letter from Keynes in December 1933, in which he advised Roosevelt that monetary expansion alone would not secure recovery, Roosevelt – against local advice and in the face of opposition from southern Democrats, Wall Street and private bankers – created the Civil Works Administration, which saw 4 million jobless Americans returning to work by building 'swimming pools, parks and gardens, schools and roads, among other projects, working through the winter' (Rauchway, 2015: 97). Under pressure from Congress, Roosevelt was forced to make concessions on some plans that would benefit wider constituencies than the poor and Blacks that Roosevelt initially targeted. In an open letter in the *New York Times*, Keynes urged Roosevelt not to cut down spending just yet. Keynes argued that the recovery depended on 'the direct stimulus to production deliberately applied by the administration' and specifically upon 'the pace and volume of the government's emergency expenditure' (Rauchway, 2015: 99). Rexford Tugwell of the Agriculture Department observed, 'After Keynes's visit I fancied we heard a good deal less about economy and a balanced budget', forcing the White House budget director Lewis Douglas to resign. (Rauchway, 2015: 99).

We could go on, but perhaps this is enough and a good point to take stock. Franklin Roosevelt took on all vested interests – in particular, the monopolies and private bankers – in driving his state-led recovery agenda, and it worked beyond anyone's wildest dreams. The New Deal set the platform for the thinking that informed the Keynes–White Bretton Woods agreement for regulating global finance in 1944. Despite his successor Harry Truman's best efforts at rolling back Roosevelt's agenda, New Deal thinking set the framework for America's vast economic power in the post-War era.

The orthodox Treasury View has today come under fire from many quarters, including post-Keynesians and Marxists, and for many good reasons. Chang and Grabel (2004), for example, argue that such orthodox policies have not been notable for their success in developing country contexts and that there is mounting evidence that there are multiple routes to development. In a recent paper published by the IMF, the authors argue (with many qualifiers) that some of the claims of neo-liberalism orthodoxy may have been 'oversold' (Ostry et al., 2016: 38). Chang and Grabel (2004) express their cautious pleasure that

> … recent research by the IMF now recognizes, albeit some seven decades after John Maynard Keynes, that unrestrained flows of liquid international capital can lead to speculative bubbles and financial crises. We are also encouraged by acknowledgment, six or so decades after Karl Polanyi, that institutions, governance, and distribution matter. (p. 274)

MERG and crowding-in: A progressive South African approach

In the transition to democracy in South Africa, an attempt was made to place on the table a state-led investment programme aimed directly at promoting growth and employment and at reversing the legacy of racial and class inequalities that lay at the heart of the apartheid–capitalist project. That was the aim of the ANC's own macroeconomic policy think tank, the MERG, which engaged the services of over 50 progressive economists from all over the world. The team included world-renowned American macroeconomist Lance Taylor, as well as Bill Gibson and the brilliant Australian economic modeller Peter Brain.

The theoretical foundations of MERG's economic policy framework lie in what I would characterise as a Cambridge, post-Keynesian or structuralist approach to economic policy where effective demand failures and the possibility of under-full-employment equilibrium are recognised as key problems. MERG envisioned a two-phase, 'crowding-in' approach to South Africa's development. The latter was built around a powerful state-led social and physical infrastructure investment programme focusing on housing, education, health and physical infrastructure investment as the growth drivers in the first phase, followed by a more sustainable growth phase which would see private-sector investment kick in more forcefully as growth picked up (MERG, 1993: Chapter 1).

The approach was fully consistent with the required macroeconomic balances over time. 'The realisation of MERG objectives [over the longer term] will be impossible unless policy is characterised by prudent … fiscal, monetary and balance of payments management' (MERG, 1993: p. 4). It called for prudence and vigilance against the 'wickedness' that Keynes had warned against, but crucially within the parameters of a very different and state-led pro-growth approach to macroeconomic policy. So much for the charge laid against it then by the ANC's weak economics leadership in its Department of Economic Policy (DEP) and by big South African business that MERG was advocating 'populist' macroeconomic policy.

The ANC leadership chose to dump MERG – its own policy think – and did not even debate it within the movement, against calls for democratic debate of economic policy especially from its trade union and civil society allies. Two years after gaining power, it introduced its own homespun neo-liberal macroeconomic policy framework – the GEAR programme – with the stunning announcement that it was 'non-negotiable'. As former

Deputy Minister of Finance at the time of GEAR, Alec Erwin (2016) put it 20 years later, 'we were so preoccupied with influencing our exchange rate and the markets, [we decided that] we could not have a public debate around GEAR … In hindsight we were too cautious' (p. 145).

Dale McKinley (2017), an independent, progressive writer and researcher, neatly captures the positioning of MERG in the spectrum of political and economic ideas:

> While the [MERG] report did not set out the kind of more radically anti-capitalist development path that many in the broad liberation movement desired, it was designed to directly address the historical, systemic inequalities of the apartheid era and create the conditions for the redistributive path to economic growth through a participatory and democratically accountable interventionist state … Its fundamentals were brushed aside as 'idealistic' and effectively ignored. Instead the ANC chose to join the liberal chorus of corporate capital, the National Party as well as powerful western countries and international financial institutions … (p. 75)

Having looked at these specific examples – one successful and one that failed even to be debated – it is time to take a step back and review some progressive theoretical reflections on appropriate economic policy options to address GEAR.

Macroeconomics and inequality: Key heterodox prescriptions

Anthony Atkinson (2015) has observed that the attack against growing inequalities has to be fought on many fronts: 'Within government it is a matter for the Minister responsible for science as well as for the Minister responsible for social protection; it is a matter for competition policy as well as labour market reform' (p. 301). While we fully endorse this view, we limit ourselves here to more traditionally understood macroeconomic policy: fiscal, monetary and exchange-rate policy. But before we turn to examine these policy options in the South African case after 1994, we need to set out some key policy options of our essentially post-Keynesian approach.

In contrast to Marxist and post-Keynesian economists, the vast majority of mainstream economists believe that the capitalist system is endogenously stable and that crises arise from exogenous shocks. Furthermore, prior to the recent financial crisis, mainstream theories and models did not regard inequality as a destabilising factor.

For Ben Fine, given the way orthodox macroeconomics has gone – with representative individuals, perfect markets, monetary policy to the fore and state (policy) ineffectiveness – it is hardly surprising that inequality and (re)distribution is largely absented from the mainstream (Personal communication, 21 March 2017). The attempts that have been made by mainstream economists have tended to be fairly predictable and largely based on human capital differentials (see, for example, Bound and Johnson, 1995).

Post-Keynesians have adopted a greater focus on inequality and tend today to focus on the impact of inequality on effective demand on consumption and investment and the implications for workers and the poor. But within the post-Keynesian tradition, there are some differences of emphasis suggestive of a rich yet constructive debate, as compared to the sterility of orthodoxy (see, for example, Lavoie, cited in Hein, 2016: 4).

Typical of the broad principles of a post-Keynesian view, the themes of economic growth, effective demand, public-sector investment, full employment, production and distribution run across all of these variants. Post-Keynesians also pay attention to the matter of the proper coordination and timing of the different strands of macroeconomic policy as well as coordination within each – especially fiscal policy coordination – to bring about more effective policy impacts on demand and distribution. A coordinated grip on consumption and investment demand is what is needed, argue Dullien et al. (2011: 104), in the interest of the economy and society as a whole. This does require active intervention by the state as well as greater coordination between the private and public sectors and an appropriately designed and capacitated institutional body or mechanism to ensure this.

Cutting through post-Keynesian varieties is one simple idea and two policy suggestions, the glue that holds the edifice together. In *Keynes, the Return of the Master*, Skidelsky (2009) summarises these as follows:

> Keynes' big idea was to use macroeconomic policy to maintain full employment. His specific suggestion was to use monetary policy to secure permanently low interest rates and fiscal policy to achieve a continuously high level of public or semi-public investment. (p. 179)

Two factors need to be taken into account here as qualifiers in responding to these policy proposals today. One relates to the global economic environment, the second to the effects of financialisation. There is an urgent need to establish an appropriate international regulatory framework like the Bretton Woods system but under admittedly vastly different conditions that will provide a supportive global regulatory integument, yet one that does not trammel national sovereignty in policymaking. The hollowing out of national sovereignty 'has been an essential element of the neo-liberal project' (Mitchell and Fazi, 2017: 3): The reactionary nationalism of Trumpism and Brexit are just two consequences of such a hollowing out of national sovereignty and of the state since at least the 1990s. So, we would need to fashion a new global regulatory system that allows for discretionary national macroeconomic policy, including, for example, the imposition of capital controls when unavoidable, in the way that both Keynes and White championed at Bretton Woods in 1944.

Second, macroeconomists also need to understand better the effects of financialisation on demand, growth and inequality. A wide interdisciplinary heterodox literature on financialisation suggests that the dramatic growth of financial markets, financial instruments and debt levels has negatively impacted investment, growth, employment and income distribution (Palley, 2017).

Fiscal policy options for fighting inequality in South Africa today

In making an appeal to a new approach to the 2018 South African budget, a civil society group made the following statement:

> We would like to see a new approach from Treasury in this new administration, including in the budget, which reflects active support for a pro-poor agenda. Civil society appreciates the role Treasury needs to play in fighting corruption, including through its public procurement office, but also recognises the conservative role, particularly regarding economic policy, that Treasury has played historically. In no sphere of government can we afford to revert to 'business as usual'. (Public Service Accountability Monitor (PSAM), 2018: 1–2)

Apart from interventions in social policy which have seen some 17 million poorer South Africans qualify for social grant payments, there is little evidence of direct fiscal policy interventions addressed at reducing inequality, which has in fact grown since the advent of democracy and a preoccupation only with fiscal discipline. One exception is the government's policy of Black economic empowerment (affirmative action). However, most analysts agree that the 'combination of a removal of apartheid restrictions and a series of public policy interventions such as affirmative action and black economic empowerment has moved a sizeable proportion of black South Africans into the middle class' (Mattes, 2014: 1). The result has been a dangerous growth in intra-Black inequality, dangerous because as Mattes (2014) argues, this growing Black middle class is likely to be less preoccupied with, or supportive of, government initiatives at meeting the basic needs of the poor (p. 17).

So, what fiscal and monetary policy alternatives could South Africa explore today to correct both historical and post-1994 inequalities, rising unemployment and low growth? The big issue is to determine how the state can act as a driver of growth, effective demand, employment and equality through its national budget and tax policy.[5] With South African unemployment officially at 27% (more accurately around 40%), if one includes discouraged workers, who can argue against the imperative to make employment generation the central goal of both fiscal and monetary policy?

A Basic Income Grant and social policy

A key fiscal policy option debated in many comparable country contexts is that of a Basic Income Grant (BIG). Despite its apparent appeal, a BIG is not favoured by most post-Keynesians who favour job creation and the right to work or a job guarantee programme over a BIG. A job guarantee programme 'involves the government making an unconditional job offer to anyone who is willing to work at a socially acceptable minimum wage and who cannot find work elsewhere' (Mitchell and Fazi, 2017: 230–231). It creates a buffer stock of jobs that rises or falls in line with changes in private-sector activity. The idea of a job guarantee programme or employer of last resort (ELR), according to Fadhel Kaboub (2007) has been 'part of the literature since the seventeenth century' (p. 2). It was revived in one of many varieties by Minsky in the 1960s. Minsky argued that ELR can create,

> an infinitely elastic demand for labour at a floor or minimum wage that does not depend upon long and short run profit expectations of business. Since only a government can divorce the offering of employment from the profitability of hiring workers, the infinitely elastic demand for labour must be created by government. (Minsky, in Kaboub, 2007: 11)

While recognising some potential policy conflicts and drawbacks, the post-Keynesian scholar Thomas Palley (2018) endorses a Job Guarantee Programme, making his case on five benefits:

> The starting point is recognition that a JGP delivers multiple benefits. First, it ensures full employment by making available a job to all who want one on the terms specified by the program. Second, it substitutes wages for welfare benefits to workers who accept such jobs and would otherwise be on welfare. Third, it may deliver supply-side benefits to the extent that it helps unemployed workers retain job skills and avoid becoming detached from the labor force during periods of unemployment. Fourth, society benefits from the services produced by workers holding guaranteed employment jobs. Fifth, it has significant desirable counter-cyclical stabilization properties. (p. 21)

Furthermore, post-Keynesians worry that BIG would be a kind of excuse by government not to focus policy attention on job creation. It is potentially also a gift to the private sector, a way of stimulating aggregate demand without any cost to them. Furthermore, it is often used by neo-liberals to justify the elimination of social programmes administered by 'inefficient' governments, in favour of a simpler method of dealing with poverty and inequality. In other words, it is a way of reducing the role of the state.[6]

This anti-state logic has led to support for BIG from some right-wing sources. Milton Friedman, for example, argued for BIG through a negative income tax mechanism as a way to raise effective demand without growing state intervention. And, inter-war conservative party activist Juliet Rhys-Williams, a dissident member of the 1942 Beveridge Commission, supported BIG as a way of eliminating the welfare state.

The idea of a BIG or Universal Grant in South Africa was originally proposed in 2003 by the Committee of Inquiry into Comprehensive Social Security (the Taylor Committee). The idea was to use this to eradicate destitution (a consequence of mass unemployment) and through this to lift a substantial number of the poor out of poverty. The ANC government's response at the time was lukewarm, based on concerns that it was unaffordable and likely to create a 'culture of dependency'. The policy debate ended there despite arguments by Charles Meth (2004) and others that little evidence exists to support either of these concerns.

State infrastructure investment

The other major issue to investigate here, in respect of fiscal policy, relates to state infrastructure investment spending, housing and the potential for free tertiary education to promote growth and address inequality, in part, by crowding-in the private sector as suggested by MERG.

A recent International Labour Organization (ILO)-funded study by Elissa Braunstein and Stephanie Seguino, based on country-level data for a set of 18 Latin American countries between 1990 and 2010, shows social policy expenditure by the state and higher public investment produced positive outcomes for both women and men in the labour market. They show that

> Both social policy and higher minimum wages are positive stand-outs in improving employment opportunities for women and higher minimum wages are associated with lower unemployment

> for both women and men.[7] Public investment is also associated with more employment for women and men and women's increases are larger than that of men. (Braunstein and Seguino, 2018: 327)

Of course, any discussion of fiscal policy would have to consider its impact on the indebtedness of the state and progressives should not simply ignore such concerns. Neither Keynes nor Piketty is in favour of high and rising public debt over the longer term as a general principle. Piketty is also concerned with the impact government borrowing has on income distribution. He is critical of government deficits because the large majority of government bonds, created when the government goes into debt, are owned by the very wealthy. To a large extent, he argues, they benefit from rising government debt. With little risk, they are able to receive positive returns on their money (Pressman, 2015: 149).

But the crucial issue here is to unpack and understand the drivers of high current state expenditure, including the size and growth of the public-sector wage bill. Few economists of any persuasion fail to see this as a major problem (see, for example, Rossouw et al., 2014).

Monetary policy, central banking and the fight against inequality in South Africa

The impact of monetary and exchange rate policy on inequality is very complicated. Moreover, it is not a field that has been well-studied as yet. The results of existing studies vary widely. Nathalie Lambrecht (2015) has argued that since Piketty's path-breaking study,

> Many possible explanations for the rise in income inequality of the recent decades have been examined … Yet, monetary policy has hardly been considered as a likely candidate. This is partly due to the fact that central bankers are charged with the task of inflation stabilization and output gap stabilization. Therefore, the distributional consequences of monetary policy have been largely ignored in monetary policy discussions. Moreover, current practice employs representative-agent monetary policy models which precludes the possibility to analyse the redistributive effect of monetary policy … The little existent literature that deals with this topic is both theoretically and empirically divided into two groups. One claims that contractionary monetary policy increases income inequality, whereas the other claims the opposite. (p. 1)

Let's look briefly at three interlinked issues: independence, ownership and the policy mandate. A monetary authority (the South African Reserve Bank, SARB) that was historically subordinate to the National Treasury and Parliament since its establishment in 1921 was granted full constitutional independence in 1996, and the country adopted an inflation-targeting regime in April 2000. The SARB remains one of a handful of central banks that is still wholly owned by private shareholders. There have been many arguments put forward that this set of institutional arrangements is inappropriate for contemporary South African conditions.

In the early 1990s, during the time that negotiations over South Africa's future were taking place, an argument was made for the SARB to remain within the structures of the 'democratic state-in-the-making' in order to improve macroeconomic policy coordination and public accountability while having greater operational autonomy than it ever had under apartheid. And that SARB should have a broad growth and development mandate in addition to a price stability mandate. That view, as argued by the MERG and in a commissioned paper by Rustomjee and Padayachee[8] was strongly opposed by the then-governing National Party and also rejected by the ANC leadership without any debate. About a decade ago, local, mainly union-based 'serve-society' advocates of monetary policy (in contrast to 'sound money' advocates), as well as some international academic experts including Gerry Epstein and his colleagues, have made submissions calling for an employment-focused monetary policy.

Comert and Epstein (2011) argued that the SARB should set its interest rates:

> … to achieve an overall real growth rate consistent with the plan which has an employment target at its core. As part of its mandate, the Reserve Bank would try to reach an inflation constraint that is mutually decided upon [with the state] as part of the overall program. In addition, the Reserve Bank would manage some of the credit allocation programs that are part of the components of the over-all employment targeted macroeconomic policy. Finally, the Reserve Bank would manage the capital account as needed to maintain the exchange rate. (p. 108)

I would argue that wholesale changes to the institutions that manage and oversee monetary and exchange rate policy, including the SARB, may not be necessary and would be too risky and costly. Any major changes to the status of SARB today, such as nationalisation (buying out private shareholders) or reversing its constitutional independence, will be very damaging to the South African economy, to much-needed capital inflows and to investment in general; neither will these changes necessarily positively change the way the SARB operates and sets monetary policy. The question to ask is what we are trying to achieve and can we realise these objectives without tampering with central bank independence or nationalising the bank?

However, changing the narrow inflation-targeting mandate of the SARB, I would argue, is both necessary and feasible and likely to have positive effects, provided it is done responsibly through Parliament and involves proper public participation and democratic debate.

There are many alternatives to inflation targeting for a country like South Africa. As far back as 1999, Epstein and Maimov (1999: 33) proposed that, given the state of the South African economy, the SARB should adopt an *investment target* subject to an inflation constraint. Later, Comert and Epstein (2011) proposed a revised *employment-targeted* mandate for the SARB (which must include a price stability mandate, of course) and regular consultation between the National Treasury and the SARB to improve macroeconomic policy coordination. If the thrust of economic policy to drive growth is an initial phase of public-sector investment, to be followed by a more sustainable phase led by the private sector, then, the former suggestion (an investment target) may make much sense.

Other institutional changes may be needed to reinforce a change in the SARB mandate. Consideration should also be given to restructuring the Monetary Policy Committee (MPC) to include up to two independent, external voting members. MPC minutes, including how members voted and why, should be published 1 month after each MPC meeting. There should also be more regular accountability to Parliament via open meetings of the Parliamentary Portfolio Committee on Finance where each MPC member would be required to explain his or her stance and vote at the last MPC. In short, the work of the MPC needs to be made less secret, more democratic and more accountable while respecting the need for some degree of confidentiality in its operations. Many examples exist for this such as the way in which the MPC accounts for its decisions in the United Kingdom.

There is another relatively important institutional 'arrangement' that should be ended which could help to lower the interest rate structure. Though shrouded in secrecy, it would appear that some kind of informal and cosy arrangement was entered into between the SARB and the major private banks as long ago as 1933 that allows a spread of 3.5 percentage points between the SARB's repurchase or repo rate and the prime lending rate. This is simply too large and inappropriate to South African reality today. However, as evidence of the power of the local banking sector, efforts by the SARB in the late 1990s to use moral suasion to get the private banks to reduce this spread proved unsuccessful. Something stronger than moral suasion may be needed now.

Moral suasion – and if necessary, legislation – may also be needed to force private banks to cut what many consider to be very high bank charges and to encourage them to increase their exposure to credit-worthy small and medium business, especially those that are Black-owned and owned by women, as part of a broader programme of economic transformation. It is critical to consider all reasonable means to move the 'highly sophisticated' South African financial system in the direction of a bank-based system of raising capital for development.

Capital controls essential in the fight against inequality

Under the spell of old Washington-Consensus thinking, South Africa's democratic government abolished exchange controls that had been in place since the early 1960s (after Sharpeville) and which served the apartheid regime well in retaining scarce funds within the country. The ANC government after 1994 appeared to be in a hurry to abolish all exchange controls (in the hope of attracting foreign capital); in fact, the IMF had to advise it to move more gradually in this regard. Today, there are no capital controls on non-residents, only limited controls on residents and the institutional capacity within SARB to monitor capital outflows has been fatally weakened. From about 1997, the government permitted some of its major corporations to list abroad, mainly on the London Stock Exchange, with the result that there was a steady flow of capital and dividend income out of the country.

The quantum of illicit capital outflows is obscene:

> [Calculations show that] capital flight between 2001 and 2007 was on average 12 per cent of GDP per year. This figure increased year on year from 2001 and peaked at 23 per cent of GDP in 2007. In particular, trade mis-invoicing remains a significant channel for capital flight by companies. Capital flight on such a scale has profound implications for South Africa's economic performance … Indeed, regularising capital flight for it to become legal could have the effect of scuppering any attempts to adopt more progressive and interventionist economic policies. (Ashman et al., 2011: 9)

I argue strongly for capital controls in our situation, at least for a limited (yet unspecified) period. For many years, talk about capital controls was regarded as a sign of 'madness' by orthodox economists and policy-makers around the world. Now, at what looks like the beginning of a post-austerity, post-crisis world order, such ideas are no longer simply rubbished. In 2012, even the IMF signalled a slightly more flexible approach:

> The International Monetary Fund has cemented a substantial ideological shift by accepting the use of direct controls to calm volatile cross-border capital flows, as employed by emerging market countries in recent years. Although the fund continued to warn that such controls should be 'targeted, transparent, and generally temporary', the policy, announced in a staff paper released on Monday, is a sharp change from the Fund's enthusiasm for liberalising capital accounts during the 1990s. (Beattie, 2012)

So, here too, given all this, there is an important policy debate that needs to take place in South Africa. Should the country consider the re-introduction of exchange controls to limit capital flight of all kinds? Should this be restricted to residents only or also be applicable to non-residents? For what period and in what forms?

Rounding up: Some specific policy proposals for GEAR in South Africa requiring further debate

In light of the foregoing, here are some practical and technical post-Keynesian policy issues for further debate in the South African context today.

Fiscal policy

At the heart of fiscal policy should be a commitment to drive public capital investment to promote growth and increase employment while not losing sight of the dangers of profligacy and the need to be cognisant of, but not constrained by, public debt considerations. In order to assist in this regard, serious attention needs to be given to the separation of the budget into two accounts: a current budget and a capital budget. While Keynes' argument in favour of capital controls has received some attention in the literature and in policy debate, his argument in favour of the separation of the budget into a current and capital budget has not garnered such attention. An exception is the article by Brown-Collier and Collier (1995) who make a strong argument based on Keynesian thinking justifying such a proposition (p. 347).

In such an arrangement, the current budget would be balanced annually; the capital budget deficit would be limited to no more than an average of 3% of GDP over, say, a 5-year cycle. A cap has to be placed on the size and growth of the government wage bill, which offers the greatest threat to the current budget deficit spiralling out of control (Rossouw et al., 2014). Contrary to some perceptions, this imperative to control the current budget deficit is very much in line with post-Keynesian ideas as well as those of contemporary inequality researchers such as Thomas Piketty and Steve Pressman. The separation would allow for greater transparency in the budget process, with the overall objective of ensuring control over profligate *consumption* expenditure, especially in the government's wage bill. At the same time, it would allow for growth-enhancing *capital* expenditure in areas such as infrastructure, and non-wage expenditure on education and health among others to grow even at the short-term risk of running deficits.

Having separate capital and current budgets is not new to South Africa. In 1937, the government, '*onder die invloed van Keynesianisme*'[9] (Gildenhuys, 1989: 641), established a revenue account separate from a loan account. Current expenditure was financed from the former and capital expenditures from the latter. These accounts were only reintegrated from 1967 on the recommendation of the Franzsen Commission, in the wake of the rise of monetarism and the dismantling of Keynesian thinking (Browne, 1973: 222).

Once a separate capital account is set up, consideration should be given to the establishment of a representative National Investment Board to make decisions on allocation of funds for all capital expenditures in line with social and economic needs and across sectors, regions and other dimensions. Both Keynes in 1928 and Beveridge in 1942 proposed such a capital allocation institution located within the state. But I would not go as far as Beveridge, who proposed that even private entrepreneurs 'must win approval of the National Investment Board' before undertaking investments (Wasson, 1960: 218).

A state-led strategy to boost effective demand as a job guarantee programme is worth serious policy debate in preference to an approach as such as a BIG for the reasons articulated above.

Monetary policy

I would argue that it is imperative that the SARB mandate be constitutionally expanded to make employment targeting its highest priority while retaining price and financial stability as important secondary goals. I would support the nationalisation of the SARB at some stage, not because I believe that a nationalised SARB will inevitably adopt more progressive policies, but in order to bring it into line with the global norm (most central banks are today state owned). The SARB's independent status should be maintained, as there is little value but great cost and reputational damage in changing this *now*. Recall that most state-owned central banks are also independent to varying degrees. Timing in such matters is key; while the timing for change was right in the early 1990s as proposed by MERG, the timing now is problematic. The terms of the MPC should be revised to include greater transparency and regular accountability to Parliament, and the MPC structure and composition should be revised to include two independent members. The legal complexities related to potential conflicts of interest if external members are brought in also need to be addressed.

The spread between repo rate and prime rate must be reduced via moral suasion in discussions between the SARB and the major banks, or by law if necessary. The current 3.5% spread is based on nothing more than private bankers' greed and relative power within the system and must be narrowed by decree or moral suasion to reduce the cost of borrowing – something that will benefit all businesses but especially small enterprises.

Exchange rate policy

I believe that it is essential that capital controls must be re-introduced for a limited period, say 5 years, and that the SARB's capacity to monitor capital flows is enhanced.

That capacity and skills set, so powerfully entrenched in the SARB since the early 1960s, has been effectively dismantled in line with the gradual dismantling of exchange controls themselves after 1994.

Conclusion

My plea is that in the field of macroeconomic policy, progressive economists of all stripes in South Africa and elsewhere today have to begin the urgent task of populating and thickening the policy space between an abominable neo-liberal project and the dream of a centrally planned economy. The powerful, historical and theoretical claims of heterodox ideas (especially post-Keynesianism) needs to be strongly re-introduced into the policy domain for meaningful debate over alternatives to (old style) commandist planning and (contemporary) neo-liberalism to take place. Vivek Chibber (2017) has reminded us that

> We have to start with the observation that the expectation of a centrally planned economy simply replacing the market has no empirical foundation. We can *want* planning to work, but we have no evidence that it *can* … we have to seriously consider the possibility that planning as envisioned by Marx might not be a real option … It's quite astonishing how little attention this issue gets on the Left today, compared to, say, the energy poured into deconstructing Bollywood movies. (p. 8, our emphasis)

It surely wouldn't be a wasted effort for the Left to dedicate some energy to working through radical social democracy and complementary heterodox macroeconomic models, including post-Keynesianism – whether we see these approaches as just interim measures on the path to socialism or as the ultimate state and form of the good society.

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Notes

1. For a critical review of the debate and empirical evidence on the 'expansionary fiscal consolidation' hypothesis, see Chowdhury and Islam (2012).
2. For a similar critique of orthodox macroeconomic policies and arguments for post-Keynesian alternatives in the context of post-Asian crisis Indonesia, see Chowdhury and Islam (2011).
3. For a powerful rebuttal of Reinhart and Rogoff, see Herndon et al. (2013).
4. See Pettinger (2013: 1).

5. We recognise a possible tension between the state's role as a driver of economic growth and its 'auctioneer role' in society but are not able to address this fully here.
6. My thanks to Louis Philippe Ronchon (Toronto) for making this point.
7. A national minimum wage is to be introduced in South Africa from 1 January 2019.
8. Reproduced in Padayachee (2015).
9. Translation: 'under the influence of Keynesianism'.

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