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# The (anti) politics of central banking: Monetary policy, class conflict and the limits of sovereignty in South Africa

Jason Hickel

## Abstract

During the transition to democracy in the 1990s, the departing apartheid regime granted political power to the black majority but kept the main levers of economic policy insulated from the revolution. Control over the South African Reserve Bank (SARB; hereafter also Reserve Bank) was central to this strategy. The SARB was made private and independent, its mandate limited to maintaining ‘price stability’, and the financial sector was liberalized – all in line with neoliberal principles. The SARB represents itself as ‘apolitical’, and claims that independence is necessary to build investor trust. But since 2009, left-wing movements have argued that central bank policy is in fact political; that it ultimately benefits the rich at the expense of the poor. They want to renationalize the SARB and establish democratic control over finance and monetary policy, thus completing the revolution. This paper explores the history and politics of central banking in South Africa, including the role of African National Congress (ANC) decision-makers, to determine how and why the SARB become independent during the transition, and who benefits from this arrangement. I find that the Reserve Bank’s monetary policy does indeed have uneven distributional effects, and serves the interests of some class factions (specifically, speculative finance)

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over others. But I argue that the vision for a more democratic financial system may be difficult to actualize. Not because it is unrealistic, but because it fails to address the external pressures that overdetermine SARB policy. Ultimately, the Reserve Bank is beholden to powers that lie beyond the borders of the domestic political economy. Integration into global financial markets, and dependence on foreign investment, has severely curtailed South Africa's economic sovereignty.

Keywords: central banking; monetary policy; democracy; neoliberalism; South Africa.

### **Introduction**

Any theory of capitalism in Africa today must take account of the history and politics of central banking and monetary policy across the region. Much has been written about the entrenchment of neoliberal economics in Africa – the liberalization of trade, the abolition of capital controls, the reversal of industrial policy, and so on – but these analyses tend to pay little attention to how central banking fits within the broader narrative of structural adjustment. Here I discuss central banking with respect to a specific feature of the neoliberal project, namely its 'post-political' effects (Zizek, 1999; Ardit, 2007; Crouch, 2004; Swyngedouw, 2005; Ong, 2000; Hickel, 2016; Hickel & Khan, 2012). In a post-political milieu, social problems are considered to be solvable not through political contestation – or struggles over resource distribution – but rather through the application of technical expertise and management (see Ferguson, 1990; Mitchell, 2002). This mode of governance obscures the real political conflicts that underlie social problems. We can see this effect manifest in the shift toward central bank independence beginning in the late twentieth century.

Over the past few decades most central banks have been granted increasing levels of statutory independence, with the purpose of insulating them from democratic political processes. This is true in Africa as much as elsewhere, with nine African countries making statutory changes toward central bank independence during the 1990s (cf. Presnak, 1996). In South Africa, which is my focus here, this strategic shift in central banking took place – rather ironically – precisely during the transition to democracy in the 1990s. Today, the South African Reserve Bank controls interest rates and other monetary policy mechanisms independently of the government and parliament, and represents its decisions as apolitical or even as transcending politics. In these ways, the central bank emerges as a quintessential post-political institution. As Simone *et al.* (2005) observe, 'The idea of an independent central bank matches the technocratic ethos of the neoliberal paradigm, with its purportedly objective, nonpartisan, disinterested, and depoliticized approach to policy making'.

I argue that the gloss of apolitical independence in central banking operates as a rhetorical screen that obscures the always-political – and overdetermined –

nature of monetary governance. In the case of South Africa, politically charged macroeconomic decisions are represented as neutral and technocratic. This is what Erik Swynghedouw (2009) refers to as the ‘evacuation of the political’. Central bankers cast their decisions as optimal for the interests of ‘the nation’ or ‘the economy’ or ‘the public’, using these monolithic constructs to paper over the class and racial trade-offs that monetary policy choices entail. But perhaps the most powerful dimension of the false post-politics of central banking is the fact that, while monetary policy can be used to promote the interests of one class or economic faction against another, sometimes with devastating consequences for vulnerable populations, these politics are hidden from view precisely because the value of money – which the central bank influences – is commonly taken for granted as natural.

While post-political governance remains a core aspiration of the neoliberal project in the twenty-first century, it is coming under attack. Social movements have sprung up to challenge the process of depoliticization at the level of both discourse and policy: the anti-IMF riots across the global South in the 1990s; the rise of Syriza in Greece; and the emergence of political formations like Occupy Wall Street in the United States. To use Anna Tsing’s (2011) term, the friction between these entrenched and insurgent formations creates new political possibilities. This same process is playing out in South Africa, where a growing social movement has put the central bank in its sights. The left-wing Pan-Africanist political party, the Economic Freedom Fighters (EFF), and some of the country’s most powerful unions have targeted the central bank as a manifestation of political power that remains ‘untransformed’ by the process of democratization that was supposed to have taken place in the 1990s. They are pulling back the veil of post-political discourse and revealing the hidden politics of central banking, insisting that monetary policy decisions are political acts with distributional effects. In other words, they seek to repoliticize this key institution of macroeconomic policymaking.

What emerges from this conflict is a sense of possibility. But the outcome is uncertain, undecidable and contradictory. During the period 2014–2017, I conducted a series of more than 30 interviews with leadership figures in NUMSA, the EFF, the South African Reserve Bank (including the former governor Chris Stals), the SARB monetary policy committee, the South African Treasury and the Chamber of Commerce, as well as with commercial bankers (including the chief economist of Nedbank), currency traders and financial journalists. I also engaged in participant observation at union meetings, public protests and monetary policy press conferences. I draw on these sources along with data from documents related to SARB history, to explore the contested terrain of monetary policy and the nature of post-political governance in South Africa.

I find that while the Reserve Bank’s critics have specific demands and a vision for a more democratic financial system, their vision may be impossible to actualize – not because it is utopian (as the Reserve Bank argues), but because it misunderstands the real nature of post-political power. The

Reserve Bank is not the ultimate culprit behind South Africa's monetary policy regime; nor is the African National Congress (ANC), which agreed to central bank independence during the transition to democracy. The culprit is the broader financial market into which South Africa is integrated, which makes stringent demands on the Reserve Bank – including the demand that the Bank should adopt a post-political stance and perform post-political discourse. The critics of the Reserve Bank have not yet come to grips with these broader forces, or articulated a plan for escaping them. The post-political impasse is more deeply entrenched than its critics appreciate.

### **Constituting the post-political**

In 2015, Julius Malema and the Economic Freedom Fighters (EFF) led a march of protestors to the Johannesburg branch of the South Africa Reserve Bank, chanting, singing, and dancing the *toyi-toyi*.<sup>1</sup> Some of them carried placards with pointed slogans: 'Down with economic apartheid, down!', and 'Forward with nationalization of the Reserve Bank!' Malema stood on a terrace above the crowd, articulating the movement's anger: 'We don't want a toothless Reserve Bank that sleeps with white capital and forgets about the poor'; 'Gone are those days where white capital will do as they wish; they must begin to listen to our masses'. The EFF handed over a list of 23 demands. Topping the list was a demand for the Reserve Bank – privately owned and independent from democratic politics – to be brought back under the control of the state. Next was a demand for the Bank to cut the overnight interest rate, which it controls, and abandon its inflation-targeting regime: 'The continued inflation-targeting and high interest rates push money into speculative financial sectors', the demands read; 'as a result companies and corporations are not investing in productive sectors which have the potential to create millions of jobs'.

This was not the first time that protestors had targeted the SARB. In 2009, NUMSA – the National Union of Metalworkers – marched on the Bank's headquarters in Pretoria. They demanded an immediate drop in the overnight rate of 200 basis points and a long-term turn toward policies that would foster employment and growth. They wanted the bank to fall in line with the macro-economic approach established at Polokwane in 2007, when a revolution in the grassroots of the ANC rejected the neoliberalism of the Thabo Mbeki administration and called for a more inclusive economic policy regime. Tito Mboweni, the governor of the Reserve Bank at the time, refused to receive the union's list of demands. Indeed, for reasons we will explore below, he refused to even make an appearance. Incensed, the union marched a second time.

To understand the political tensions around the Reserve Bank today, it is necessary to revisit its recent history. The Bank has not always been independent. For eight decades following its inception in 1921, the Bank functioned as

an arm of the government, much like any other department or ministry. As Janine Aron (2011) has put it, the Bank was ‘the creature of the government of the day’, and was managed directly for the sake of achieving specific, politically-determined outcomes. As a function of this arrangement, monetary policy was subject to scrutiny by opposition parties and politically accountable to the electorate. Theoretically, if voters disliked the Reserve Bank’s policy, they could pressure their political representatives to change it.

During the transition to democracy in the early 1990s, however, the National Party fought to change this longstanding arrangement.<sup>2</sup> Knowing that the ANC were going to assume political power, the National Party wished to insulate economic policy as much as possible from ANC control (Giliomee, 2012). Central bank independence was central to this strategy. The National Party knew how powerful the SARB was, and did not trust the ANC to wield this power. They feared that the latter would engage in ‘loose’ monetary policy for populist ends, which could undermine the interests of creditors, people with accumulated wealth, and businesses seeking foreign finance – all of which were disproportionately represented in the white community whose interests the National Party sought to secure. This move to tie the hands of a successor government is recognized in the literature as a classic motive for enshrining central bank independence (Goodman, 1991; Boylan, 2001), particularly in cases where political conflict is acute (Bernhard, 1998; Keefer & Stasavage, 1998).

The ANC’s position on the central bank during the negotiations was somewhat more complicated. The Macroeconomic Research Group (MERG), which was regarded at the time as the ANC’s economic think tank, responded to the National Party’s position on the central bank in a memorandum which was written to be used by the ANC’s negotiating team. The authors of the memo, Cyrus Rustomjee and Vishnu Padayachee, observed that there was ‘a sinister component’ to the National Party’s demand for a constitutionally independent central bank: ‘The impression given is one of clear determination to remove crucial levers of power from a future democratic state’, they wrote (Padayachee, 2015, appendix). The memo argued that statutory independence, when coupled with the low-inflation mandate, would present ‘an enduring potential obstacle’ to the success of the economic policies that would be required for reconstruction and development in the new South Africa. It also pointed out that it is ‘fundamentally undemocratic’ for an unelected body to be assigned constitutionally enshrined powers. MERG’s position was that the central bank should be subordinated to the Treasury, so that the two institutions could work together toward a coordinated, democratically ratified macroeconomic policy. The memo was written on 28 July 1993. The position outlined in the memo was later incorporated into the full MERG report, *Making democracy work: A framework for macroeconomic policy in South Africa*, which noted that central bank independence would ‘divest the elected government of significant economic powers’ and called for the Reserve Bank to be subordinated to the Ministry of Finance (1993, pp. 262, 264).

It would appear, then, that the ANC's position was to resist the National Party's demand for central bank independence. Yet, the ANC leadership was not united in this view. As Padayachee (2015) notes, when MERG's position on the central bank was first publicly aired on 2 November 1993, Tito Mboweni, deputy head of the ANC's Department of Economic Planning (DEP), distanced himself from it, saying it was 'not ANC policy'. Three days later, when MERG's position was formally announced, the same thing happened again: according to Patrick Bond (2000, pp. 75–76), Mboweni rejected MERG's position on the central bank mere hours after it was presented. This decision was then reversed a few days later by the ANC's National Executive Committee, indicating that the ANC leadership supported MERG's position and wanted the central bank to be 'subject to the powers of parliament'. But the following month yet another reversal occurred. Padayachee (2015) notes that when the full MERG report was presented in December, it was 'immediately and unceremoniously dumped' by DEP head Trevor Manuel. This suggests there was a major ideological rift within the ANC between MERG and the DEP.

The DEP position ultimately prevailed. South Africa's interim constitution, which was finalized in December 1993, made the central bank independent from government control – the highest form of independence enjoyed by any central bank in the world. Section 196.2 reads: 'The South African Reserve Bank shall ... exercise its powers and perform its functions independently'. In fact, this conclusion may have been reached before the MERG memo was even written. Archival records indicate that the principle of a constitutionally independent central bank was agreed as binding in the Multi-Party Negotiating Forum on 2 July 1993 (Bide, 2016). In light of this, it appears that Mboweni and Manuel's position was a foregone conclusion, arrived at without any substantive debate within the ANC. The principle of central bank independence made it into the Reconstruction and Development Program, the ANC's 1994 election manifesto, and was finally enshrined in the 1996 constitution, which states, in section 224.2: 'The South African Reserve Bank, in pursuit of its primary object, must perform its functions independently and without fear, favour or prejudice'. The Bank's 'primary object' is defined as 'to protect the value of the currency in the interest of balanced and sustainable economic growth'. The government cannot alter this objective, for it is locked into the constitution.

In interviews with two leading organizers in NUMSA, my interlocutors criticized the Bank as an 'untransformed' institution, in that the ANC did not assert control over it during the transition from apartheid to democracy. They see it as an extreme provocation that key levers of macroeconomic policy remain in the hands of an institution that exists beyond the reach of democratic political processes. Questions about the Reserve Bank are opening up alongside broader concerns over what happened during the negotiated transition that effectively hobbled the ANC's ability to bring about any meaningful economic transformation (e.g. Habib, 2013; Terreblance, 2012).

Democracy has been achieved, but poverty is widespread, unemployment is high and inequality is extreme. Why did the revolution fail to achieve economic justice, they ask? What went wrong?

### **Independence in name alone**

The SARB is not alone in its move to independence. Most of the world's central banks have shifted in this direction in recent decades, particularly during the 1990s, when some 80 countries granted greater independence to their central banks. The main theoretical justification for this comes from agency theory. The claim is that central banks controlled by states have an inflationary bias, and that this is particularly true in electoral democracies (Barro & Gordon, 1983; Bernhard *et al.*, 2002). States have a built-in preference for high employment, and so they allow inflation in order to achieve this objective in the short term – exploiting the trade-off in the Philips Curve. But because agents in the market begin to recognize this pattern and incorporate inflationary expectations into their decisions, the effect of inflation on employment is gradually neutralized: in the long term, high inflation no longer stimulates employment. Rather, the economy is left with inflation's downsides – a breakdown in the informational role of prices and increased uncertainty for market agents, leading to economic inefficiencies (Ackley, 1978; Laidler, 1979). The only way to prevent this from happening, the theory goes, is to suppress the state's ability to enact its inflationary bias, by making the central bank independent from government and appointing a governor who has no ties to Keynesian or leftist politics and who is known to favour low inflation (Rogoff, 1985). Freeing central banks from the state's inflationary pressures is supposed to make their monetary policy more 'credible' in the eyes of market agents.

Yet, central bank independence is not what it seems. In South Africa the Reserve Bank is subject to a constitutional mandate that was initially drawn up by the National Party. The Bank may be independent from the wishes of the present government, but it is bound forever to the wishes of the National Party government of 1993 and a small faction of the ANC leadership at the time. Central bank independence is not an expression of truly 'post-political' governance so much as an expression of a previously enshrined political objective that successfully masquerades as post-political. Of course, the Bank enjoys the freedom to interpret its 'primary object' in any way it chooses, and this is considered to be an expression of independence. But, thus far, the Bank has interpreted it only in one way, *viz.*, as a mandate to maintain low inflation. This is partly because the Bank is aligned with the interests of a speculative financial sector that is deeply inflation-averse, and partly because any deviation from a commitment to low inflation would harm the Bank's credibility, and South Africa would suffer rapid capital flight. So, while the Bank may theoretically enjoy interpretive latitude over its mandate, in an open and integrated



financial market it only really has the option of a single course of action. Independence is independence in rhetoric only.

This contradiction is also evident when it comes to the Bank's leadership. Central bank independence is supposed to be manifest not only in legal writ, but also in the person of the governor (Rogoff, 1985). When ANC negotiators agreed to central bank independence in 1993, they also agreed to the National Party's demand that the ANC refrain from appointing a new governor to the Reserve Bank and instead permit the existing governor, Chris Stals, to continue in his post. This was said to be important because it would signal that the new government was committed to central bank independence. It seems strange, however, that Stals – an appointee of the apartheid National Party during a time when the central bank was subordinate to politics – should be regarded as 'independent' and apolitical, whereas an ANC appointee would not. Here again the claim of independence from politics serves as a rhetorical device to signal independence from a certain *kind* of politics (namely, the revolutionary race/class politics of the ANC), rather than independence from politics altogether. This fact was born out when the ANC appointed Tito Mboweni as the Bank's first black governor in 1999. Markets immediately assumed that Mboweni would be 'political' – simply by virtue of being a member of the ANC, and apparently also by virtue of being black – and reacted badly. Mboweni had to counteract this assumption by stating publicly and repeatedly that he would implement tight monetary policy, which is considered an acceptable 'apolitical' stance. Similarly, when Gill Marcus was appointed governor in 2009, markets worried about her past membership of the South African Communist Party. In the end they forgave her because she had served as the Chair of Western Areas Mining Company, Non-Executive Director of Gold Fields and Chair of Absa Bank – a CV she specifically emphasized. Interestingly, links to leftist parties count as 'political', but links to commercial banks and mining companies do not – they are regarded as neutral, as empty of ideology.

In interviews with leading figures in the South African Reserve Bank and on the Monetary Policy Committee, I asked my interlocutors why they felt it was important for the Bank to be independent from government. In addition to the standard technical justifications (i.e. to avoid inflation bias, to maintain credibility, etc.), many pointed to the 'Primrose Incident' of 1984 as a cautionary tale. Facing a crucial by-election in the Primrose constituency on the East Rand, the National Party cajoled the Reserve Bank into dropping the interest rate in order to appease voters who were unhappy with the tight monetary policy of the time. It worked. Following the election, rates were raised back to their previous levels. This incident is frequently cited as a justification for central bank independence from the political process – indeed, the story is repeated so often it has an almost mythical status – but the argument is misleading. The Primrose Incident is an example of political corruption, *not* an example of the normal influence that the democratic process has over monetary policy in a politically subordinate central bank. Yet, the story serves an important ideological function: by blurring the conceptual boundaries between

political accountability and corruption, it contributes to the impression that central bank independence is the only acceptable option.

Alongside the move to statutory independence, many central banks have shifted to a strategy of ‘inflation targeting’. This too took place mostly during the 1990s. South Africa’s Ministry of Finance announced an inflation targeting regime in 2000, with a mandate to keep inflation within 3–6 per cent. This move further tied the Reserve Bank to a policy of low and stable inflation (low for South Africa, that is; inflation of 3–6 per cent would be considered high in most Western economies), virtually eliminating the interpretive independence of the Bank, and severely curtailed its operational independence by subordinating it to a much more precise mandate – and one that was imposed by the government, no less. But these constraints are not officially acknowledged as such. Rather, inflation targeting is regarded as *enhancing* the independence of the central bank. Here too it becomes clear that the discourse of ‘independence’ is mostly rhetorical. Instead of carrying its normal illocutionary meaning, it carries perlocutionary power (Austin, 1962; Holmes, 2009, 2013) – it is used to signify a commitment to low inflation. In reality, it does not matter much whether a central bank is independent from or subordinate to government. What matters is whether it maintains a credible commitment to low inflation. If it does, it is considered ‘independent’ and apolitical.

If central bank independence depoliticizes monetary policy by insulating it from democratic debate and parliamentary power, and by making the political commitment to low inflation seem neutral and apolitical, inflation targeting takes this a step further. In an inflation targeting regime, the measure of inflation – the Consumer Price Index (CPI) – takes on the status of a fetish. The economy is reduced to a single indicator, and controlling that indicator becomes the primary focus of monetary policy, while the social and political relations that lie behind it (which discriminate against the poor<sup>3</sup>) are obscured. In South Africa, the Reserve Bank’s policy decisions are judged not by how they affect the well-being of certain competing segments of the population, but on how they affect CPI (and, to a lesser extent, GDP). In this sense, inflation targeting is the consummate expression of post-political governance. By focusing on the inflation indicator, the Bank further disavows its political entanglements. It can claim that its decisions are made not for the sake of a certain faction, but rather for the sake of improving the indicator, which comes to represent the total ‘health’ of the economy. Keeping inflation within the target range is supposed to be good for the economy as a whole (more specifically, it supposedly helps create the conditions for ‘long-term growth’, and long-term growth is assumed to be good for everyone). Moreover, inflation targeting itself – the fact of focusing on inflation to the exclusion of all else – is supposed to attract foreign investment by giving investors confidence, and attracting foreign investment is, in turn, assumed to be an indisputable good.

My interlocutors in the SARB often use medical metaphors when describing their work. For instance, they commonly spoke of inflation as a ‘fever’, and they

see themselves as working to combat this kind of illness in order to restore the economy to 'health'. Just as a physician might seek to bring a patient's inflammatory markers and temperature back within a target range by adjusting medications, so central bankers adjust interest rates and reserve requirements to bring inflation back within a target range. The use of medical metaphors in central banking both reveals and reinscribes certain assumptions. In medicine, the body is regarded as a holistic unit with unitary interests; it is not thought to be composed of competing internal factions. Drawing on medical discourse, central bankers cast the economy as a unitary entity with unitary interests, just like the body. Doing so effectively erases the political trade-offs that central banking entails (i.e. that some factions or classes benefit from monetary policy decisions at the expense of others). If trade-offs *are* acknowledged, they are represented as 'optimal' – the most balanced possible option if the economy is to remain healthy.

Inflation targeting depoliticizes in another sense as well. It presumes that interest rates should be raised in order to quell inflation *regardless* of the source of the inflation (Stiglitz, 2008). In today's global economy developing countries may face high inflation not because of poor macro-management at the national level, but because the price of food imports is increasing (which represents a large share of household expenditure), or because of commodity price fluctuations. In other words, inflation may be imported from elsewhere – a consequence of the fact that developing countries are so tightly integrated into the global economy, which in turn is swayed by financial speculation. While central banks may recognize these exogenous drivers of inflation (as the SARB does), they have no way to combat them. Under inflation targeting regimes, the central bank's only tool for fighting inflation of any kind is to raise domestic interest rates. This reproduces the assumption that the problem has to do with national policy, and effectively erases the real exogenous drivers of inflation. The appropriate solution to inflation in this context is to target its real sources, which would mean regulating Wall Street's speculation on food markets and commodities, for example. It is a political battle. But the international politics of inflation are sublimated and reduced to the question of the domestic interest rate, which appears once again as a fetish.

### **The hidden politics of central banking**

My interlocutors at the Reserve Bank insisted that they determined monetary policy decisions in the general interests of society as a whole. This position is standard among independent central banks, and is consistent with claims in macroeconomics about the general value of targeting low inflation. But a growing literature in political science casts doubt on this view. Some scholars take a straightforward Marxist line and argue that central banks make policy in the interests of the capitalist class (e.g. Magdoff & Sweezy, 1987). Others have argued that they make policy in the interests of banks – a more populist

critique (e.g. Greider, 1989). Still others hold that policy is conducted in the interests of the central banks themselves, as institutions (e.g. Willet, 1988; Mayer, 1993). Perhaps the most useful analysis, however, has come from Gerald Epstein (1992, 2002, 2014), who argues that central bank policy is always an expression of class and intra-class struggles. According to Epstein's 'contested terrain' model, monetary policies will reflect the interests of finance, industry, or labour depending on which faction is most powerful, within constraints posed by structural determinants such as the degree of the country's integration into global markets and the strength of its economy *vis-à-vis* competitors.

Epstein's model considers four different dimensions of political economy: the relative power of capital versus labour, the relative power of the financial sector versus the industrial sector, the relationship between the central bank and the state, and the extent of the economy's integration into global financial markets. He proceeds from a series of tested assertions about the interests of labour, finance capital and industrial capital. Labour always supports loose money in order to promote high employment and drive wages up. Finance generally supports tight money because it is inflation-averse. When the finance sector is focused primarily on speculation, it always supports tight money in order to extract rent through high interest rates. Industry generally supports loose money for the sake of expansion, but when industry is locked in battle with labour over wages it supports tight money in order to drive employment and wages down. When there are close links between industry and finance (i.e. when industry is highly financialized, such as in the case of car manufacturers that sell loans), industry supports tight money. And when finance is focused on enterprise rather than speculation, its interests align with those of industry.

Epstein finds that, in the absence of countervailing pressures, central banks naturally gravitate toward the interests of finance as their default position. When central banks are integrated into the state, however, they will promote monetary policy consistent with the interests of whichever faction is dominant in the economy, including labour. On the other hand, when central banks are independent, they will not be influenced at all by labour, leaving them to balance the interests of industry and finance. When there are close links between industry and finance, independent central banks will take account of the interests of both. When links between industry and finance are loose, independent central banks will revert to the interests of finance, and when speculative finance is dominant, central banks will always promote tight money. Finally, when the economy is small and highly integrated into global financial markets, central banks will follow the policies of the internationally dominant central banks – and in a context of financialization this always means tight money.

We can use this framework to analyse the South African case. In South Africa, the central bank is independent and therefore largely unconcerned with the interests of labour. Industry wants low employment in order to drive wages down, but at the same time supports loose money for the sake of

expansion. Because the links between finance and industry are relatively weak, the central bank is primarily concerned with the interests of finance. And because the South African economy is highly financialized (Ashman *et al.*, 2011) and dependent on foreign short-term portfolio investments, the interests of speculative finance prevail and translate into a policy of tight money (see Dafe, 2017). The focus on tight money is compounded by the fact that the South African economy is small and highly integrated into global financial markets that pressure South Africa to maintain low inflation and high rates. In other words, the structure of South Africa's domestic political economy, the independence of its central bank, and the nature of the country's integration into the global economy conspire to make restrictive monetary policy more or less inevitable. When the dust settles over the contested terrain, the SARB is primarily concerned with promoting the interests of speculative finance over the interests of other factions.

This helps us make sense of South Africa's monetary policy in a way that the standard economic arguments do not. Again, the main justification for low inflation targeting is that it boosts economic outcomes, improving the outlook for long-term growth, which is good for the economy as a whole. But there is no conclusive evidence for this, and indeed no evidence for its inverse – that higher inflation is harmful to growth. Reviewing the literature on the subject, Jonathan Kirshner (2002, p. 9) concludes that there is no evidence for any real economic costs of inflation below 20 per cent. Indeed, below 20 per cent, there is no statistically significant relationship between inflation and growth (Krishner, 2002; Barro, 1996, p. 159). Given the absence of compelling evidence that inflation is detrimental to economic outcomes, there must be political reasons why central banks take this stance – in other words, reasons having to do with distribution between factions in the domestic economy, or structural constraints imposed from abroad.

In light of the above, it is clear that monetary policy is always political, in the sense of being beholden to or constrained by particular political forces. But it is political in the sense that it always has distributional effects. There are a number of key historical examples of how monetary policy has been used to shift resources in service of specific class interests. One is the Volcker Shock of 1980, when the US Federal Reserve raised interest rates to 21 per cent. The Volcker Shock triggered a recession that undermined the power of organized labour and caused wages to collapse. By manipulating the rate of interest, Volcker was able to tip the balance of power in favour of capital over labour. And the impact of this decision was not limited to the United States. Higher US interest rates set off the Third World debt crisis, which triggered a wave of IMF structural adjustment programmes that forced developing countries to cut public spending, privatize state assets, and liberalize trade and regulations. In light of this history, it is strange that the contemporary mandate to target low inflation is cast as apolitical; a policy position that only three decades ago would have been considered a political intervention now passes for neutral.

A second example is the Zero Interest Rate Policy (ZIRP) that Western central banks have used since the financial crisis. ZIRP was supposed to stimulate economic recovery, following which the central banks would raise interest rates again. But neither of these happened as expected. Zero rates failed to work according to standard monetary theory because of its distributional effects. ZIRP made money readily available in the form of virtually free credit, but because in a context of recession and high inequality there is no aggregate demand, there were few profitable ways to invest it. So those who have access to credit – in other words, the already-rich – borrowed to invest not in productive pursuits, but in assets. Inflation did not materialize in the prices of everyday consumer goods, but it did hit the value of stocks, gold, and, most importantly, houses. This was good for people who owned property, but devastating for renters, for they had to pay more of their earnings to ever-wealthier landlords. At the same time, the value of wages decreased relative to the price of houses. In London, the house price to earnings ratio rose from 5.5 in 2009 to 9.5 in 2015. Stanley Druckenmiller referred to post-crisis monetary policy as ‘The biggest redistribution of wealth from the middle-class and the poor to the rich ever’ (Frank, 2013).

### South Africa’s conundrum

NUMSA and the EFF are aware that central bank ‘independence’ is a mirage – that it is not independence in any real sense but rather simply independence from labour and democratic politics. They also recognize that the SARB’s monetary policy is always political, that it emerges from a contested terrain, and that it entails class, race and factional trade-offs, serving the interests of some at the expense of others. They claim that high interest rates undermine the possibility for economic growth and employment, and redistribute resources toward speculative finance (what Malema refers to as ‘white capital’) and away from productive industry. They also point out that high rates (and low inflation) are harmful in a context where 86 per cent of South Africans are in debt, double the world average, and 10.3 million of them are struggling to meet their debt service obligations (see James, 2015). They want monetary policy to be fairer and more democratic, and pro-poor instead of pro-elite. They want interest rates to be lowered, inflation to go up a bit (in order to diminish debts and accumulated wealth), and for inflation targeting to be abandoned in favour of an employment target. They believe that lower rates will help stimulate the economy and boost growth and employment, thereby helping to ameliorate some of South Africa’s inequality. They also want to nationalize the central bank – and they see this as an important step toward reclaiming the economic institutions that were left untransformed during the transition in the 1990s. In other words, they want to *repoliticize* the central bank.

In the process of this battle, the question of what happened during the negotiated transition has reemerged. Why did ANC negotiators concede to the

National Party's demands? This question is hotly debated in scholarly and political circles in South Africa, and among my interlocutors at NUMSA. One theory holds that the ANC was effectively outmaneuvered by National Party negotiators. Focused primarily on obtaining political power, they conceded to the National Party's economic conditions, thus playing into the hands of the latter. Perhaps they conceded because they did not realize how problematic this move would prove to be in the future (e.g. Gumede, 2005; Klein, 2007), or because their own economic policy position was underdeveloped (e.g. Bide, 2016); although if either of these are true, it is only because the process was rushed and did not allow ANC negotiators to consult with MERG economists in a timely fashion. Or perhaps it was because they wanted desperately to keep the negotiations on track, knowing that if the process collapsed and the battle reverted to armed conflict they would be sure to lose, given that by that time the USSR no longer existed to provide them with military support. Either way, this theory holds that the ANC made what Ronnie Kasrils (2013) has called a Faustian pact: they forewent power over key economic policy levers like the central bank in order to gain power over the state, only to discover – too late – that in so doing they sacrificed their ability to effect the social transformation they had promised to voters.

A second theory prominent among NUMSA activists holds that the National Party exploited an ideological rift within the ANC. The negotiations were managed by a core of elite politicians like Thabo Mbeki, Tito Mboweni and Trevor Manuel who, according to Patrick Bond (2000), had clear neoliberal proclivities despite their popular rhetoric to the contrary. They were invited to participate in secret meetings with leaders in the Afrikaner and English business community from which the more radical unions and social movements were excluded (Terreblanche, 2012; Esterhuysen, 2012), paving the way for what Bond calls an 'elite transition' that left the basic structure of the economy intact.

Both theories have strong currency on the left, within the EFF and NUMSA, and have generated considerable anger at those who appear to have 'sold out' the struggle. But neither adequately explains the decisions that were taken with regard to the central bank. These narratives fail to account for what ANC decision-makers say about their own motivations, and overlook a series of deeper, more intractable complexities.

During the 1980s, the shift to central bank independence in many countries was easily explained as a strategy for reducing inflation rates. But in the 1990s this explanation became less plausible; not only because there was scant evidence for the value of low inflation, but also because the countries that were making this move did not suffer from high inflation in the first place. This was true of South Africa. Inflation had been on a strong downward trajectory since 1986, so from an inflation standpoint there was no reason for ANC negotiators to grant central bank independence.

A more plausible explanation is that ANC negotiators were persuaded – either of their own accord or by their interlocutors during the negotiations – that liberalization was their only option. The new government would need

capital to finance broad-based development, and to service the debt it was set to inherit from the apartheid government. They had the option of defaulting on the apartheid debt, but they may have been frozen out of the international financial system as a result. They could not rely on domestic savings, since South Africa had none to speak of. They did not have the option of seeking credit from the Soviet Bloc, since it had collapsed a few years prior. They could seek credit from the IMF – and this was the most obvious choice – but such credit would have come with structural adjustment conditions, and the ANC knew how devastating structural adjustment had been for the rest of Africa (White, 1996; Riddell, 1992; Stein & Machiko, 1999); they were keen to avoid this fate, and they did not want to cede sovereignty to the US Treasury. So they opted for what they were convinced was the only remaining option: to rely on foreign investment.

In my interviews, I found that ANC appointees to the Reserve Bank and the National Treasury hold this view. They represent the foreign investment strategy as a *progressive* move, given the circumstances – as a way of avoiding foreign loans and retaining national sovereignty. In other words, they see it as a kind of pro-independence stance.

The problem was that foreign investors were worried about the new South Africa as a destination for capital. Theoretically, the shift to democracy should have boosted the attractiveness of the state's bonds, because democracy supposedly reduces political instability (MacDonald, 2006; Stasavage, 2003). But this only works if domestic creditors retain some control over political processes. In South Africa, domestic creditors lost this control during the transition. As a result, foreign investors regarded South Africa as a risky place to invest, for they see their interests as co-extensive with those of domestic creditors (Hamilton & Viegi, 2009). Desperate to boost investor confidence, the ANC had no choice but to impose a kind of home-grown structural adjustment programme: they scrapped nationalization plans, wrote strong property rights into the Constitution, promised privatization and trade tariff reductions, relaxed capital controls, and moved in the direction of fiscal austerity. All of this was supposed to signal to international markets that the new government had no intention of undermining the interests of investors. I argue that we should see the ANC's concessions on Reserve Bank independence as part of this plan, along with the move to inflation targeting at the end of the 1990s.

This theory finds support in the literature on central banking. Meyer *et al.* (1997, p. 157) argue that the more dependent a state is on the global system, the more inclined it will be to adopt practices consistent with 'the expanding externally defined requirements of rational actorhood'. Polillo and Guillen (2005) note that this pressure is particularly powerful for countries that are reliant on FDI. 'Politicians are likely to favour central bank independence in order to continue attracting foreign capital', they write. 'The control of monetary variables by an independent central bank is assumed to reassure foreign investors that the value of their investment will hold into the future, because inflation will be kept low and the exchange rate will not shift adversely to



their interests'. Polillo and Guillen posit that reliance on FDI is a *cause* of central bank independence (also see Dafe, 2017). But in the case of the South African transition, I would argue that this relationship is reversed: based on my interviews, it seems that ANC negotiators saw central bank independence as a *prerequisite* for attracting much needed FDI. Indeed, as Milesi-Ferretti (1995) points out, in an era of globalization leftist parties are ironically more likely to push for central bank independence in order to counteract the impression among foreign investors that they lack inflation-fighting credibility.

But if this was the case, the ANC's plan was thwarted. Central bank independence has not had the desired effect; international markets continue to view South Africa as a risky destination, and South Africa has failed to attract much FDI. Nonetheless, South Africa's short-term bonds are considered very attractive on international markets, as a result of the state's prudent approach to debt. As a consequence, some 80–90 per cent of capital inflows into South Africa are short-term portfolio investments in bonds and equities, rather than employment-creating FDI. South Africa is now effectively dependent on these flows to finance its current account deficit. Indeed, Polillo and Guillen (2005) note that dependence on portfolio flows is even more coercive than dependence on FDI, in terms of pressure to conform to central bank independence. In order to keep this capital flowing in – and to prevent it from flowing out, which, given the absence of exchange controls, can happen at the touch of a button – South Africa needs to do everything it can to please bond and equity investors. In this sense, South Africa's plan to reduce its subordination to foreign creditors has backfired, for it is more subordinate to them than ever. It may have escaped bondage to the IMF and the US Treasury, but it is now in bondage to foreign creditors of a different sort (Hamilton & Vieg, 2009).

Because of this structural dependence, South Africa needs to keep inflation low. This explains the shift to inflation targeting in 2000. But low inflation requires maintaining relatively high interest rates. When interest rates rise, the price of bonds in the market falls, which makes them cheaper to buy and therefore more attractive. Given the state's dependence on bond sales, it is possible that the central bank feels compelled not only to keep inflation low, but also to keep interest rates either high or in a 'hiking cycle' whenever possible, for the sake of keeping the bond market buoyant (a key exception to this pattern was during the years following the 2008 crisis, when the Bank lowered rates). It is impossible to confirm this hypothesis, but two leading economists I interviewed at the Reserve Bank indicated to me that it is likely correct. This would explain the persistent high rates that the unions and EFF are upset about.

One of the reasons why South Africa faces this challenge is that it is not an obvious place for FDI. Why would foreign investors send money to South Africa, when they could send it to Nigeria, which has a much bigger market, or China, where labour is significantly cheaper? Given that South Africa is relatively uncompetitive, it is forced to improve its credibility in the eyes of

international markets. Nigeria and China do not have this pressure. Nigeria's central bank is known for capriciousness, while China does not have a working democracy – but these factors do not matter because there are other strong reasons to invest there. In South Africa, by contrast, 'credibility' (i.e. the post-politics of independent central banking and low inflation) *does* matter.

In light of these structural constraints, it becomes clear that the critique from the left is inadequate. They argue that the Reserve Bank promotes a monetary policy that serves the interests of some factions over others, and then disavows this distributional politics and obscures it behind the screen of apolitical discourse, casting monetary policy as technocratic and designed for the interests of the nation as a whole. But this is not exactly accurate. Yes, South Africa's monetary policy has uneven distributional effects, and benefits speculative finance at the expense of other factions, but the purpose of the Bank's discursive anti-politics is not to obscure this. It is not intended as a ruse. Rather, it is designed to secure dependable lines of finance for the state. In this sense, their stance is not so much political as overdetermined by external structural forces to which they are subordinate. The mandate to which the central bank responds lies beyond the borders of the domestic political economy entirely – beyond the bounds of Epstein's contested terrain. This is the real power behind the (anti) politics of central banking in the global South.

In my interviews with SARB figures, I put to them the question of what they thought of the left's demands. What would happen if they lowered rates, shifted to employment targeting and nationalized the Bank? Their answer was that international capital would flee, leaving South Africa with a balance of payments crisis. Ironically, if the Bank was nationalized or shifted to employment targeting, even *higher* interest rates would be necessary to convince investors to buy South African assets, which would be perceived to be politically riskier than competing assets in other countries. This would trigger a recession. The conundrum is not dissimilar to that faced by Greece when Syriza initially refused to repay the country's debts. The consequences of this move were so severe that in the end Syriza was unwilling to go through with it. They decided that submitting to the Troika's austerity programme was less painful than the recession that would be triggered if they refused. This illustrates the true extent of the post-political conundrum. The mantra of pro-globalization advocates in the 1980s was 'there is no alternative'. At the time there actually *was* an alternative. But today, *because of* globalization, there is in fact no (easy) alternative. Integration into global financial markets, and dependence on foreign investment, has tied the hands of sovereign nations. They can no longer control their own macroeconomic policy for fear of angering the gods of international finance. The post-political order is too dangerous to disrupt. This more complicated reality is not generally acknowledged by the SARB's critics – nor indeed by scholars who propose alternative central bank regimes (e.g. Arestis & Sawyer, 2011). In their attempts to repoliticize central banking and articulate a fairer monetary policy, they ignore and obscure these difficulties.

But this conundrum need not be the end of the story. If policymakers are willing to accept some upheaval in the short and medium term, there are alternatives they might consider. The South African government could enact the left's demands with respect to the central bank and at the same time impose strict capital and exchange controls to keep money from fleeing. To fund the state, they could impose prescribed assets, which would require companies operating in South Africa to hold a certain amount of state bonds. Another option would be to use Modern Monetary Theory (Kelton, 2020) and simply issue debt-free 'public money' to finance government spending (Mellor, 2010). One could use these resources to fund a public job guarantee organized around core needs like essential services, care work, ecological regeneration and the energy transition (Tcherneva, 2020). Either approach would further alienate creditors; but they would also enable the government to reconstitute the economy around the needs of South Africans themselves, creating a new system organized around use-value, public goods, community welfare, national economic sovereignty and self-sufficiency, with a partial delinking from the global economy (Amin, 1990). Indeed, perhaps these would be more fruitful demands for the left to pursue in the first place. After all, what's the point of battling over the interest rate when you could resort to prescribed assets or public money? What's the point of struggling to get an employment mandate when you could introduce a public job guarantee? One might argue that the left's demands do not go far enough – that the horizons of their imagination are limited, just like their opponents, by the anti-politics of central banking.

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### Notes

- 1 This is a style of protest dance that emerged during apartheid. It is often used today to express grievances against government policies.
- 2 Specifically, during the Multi-Party Negotiating Forum in 1993.
- 3 The calculation of CPI in South Africa gives very little weight to goods that poor people consume: only three points out of 100 are assigned to bread, while much more than that is assigned to goods like medical insurance (seven points), private cars (11 points), satellite television, etc.

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