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SOUTH AFRICA'S MORIBUND ECONOMY:

Searching for economic recovery, employment and growth in the wrong places

By Redge Nkosi

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Redge Nkosi is the Executive Director and Research Head of Firstsource Money

Firstsource Money is a research organisation specializing in Money, Banking & Macroeconomics
http://firstsourcemoney.org/

SOUTH AFRICA'S MORIBUND ECONOMY:
Searching for economic recovery, employment and growth in the wrong places

South Africa is an economy whose poverty, inequality and waste of human capital (unemployment) are only comparable to a country at war. The heinous cost of macroeconomic incompetence, capture or both must rank, in terms of resource misallocation (destruction of economic value), among the most expensive economic dislocation in the world, comparable to the crimes of apartheid and colonialism projects.

The nation's primitive understanding of money and indeed banking leads to the misguided use of tools that are highly anti-developmental but also tools that are drivers of financialisation in the economy with their attendant currency risks, poverty, unemployment and inequality generation.

Introduction

A decade of very poor economic performance (Treasury, 2018: 14; World Bank, 2018) since the break out of the financial crisis has not only raised questions about the competence of South Africa's fiscal and monetary authorities but has laid bare the fragilities of the intellectual foundations upon which the current SA's macro (economic) system is built: the International Monetary Fund & World Bank's development doctrine and its macroeconomic policy consensus. That the intellectual edifice behind the failed consensus on monetary and fiscal policies crumbled in 2007/8 is now commonplace and beyond any argument (Romer, 2016; Buiter, 2009; Solow, 2008; Stiglitz, 2014; Lavoie, 2016; Mitchel, 2017).

With macroeconomic performance also highly contingent on institutional design, further questions besides incompetence and policy failure, are being raised about the efficacy of SA's imported (imposed) IMF/World Bank's favoured design. The design reflects little or no cultural, social-economic, historical and developmental contexts or realities of a class and racially divided and a deliberately impoverished and economically marginalised majority South Africans.

The current institutional structure deliberately is compartmentalised, uncoordinated, inflexible and market-finance based and renders itself open to easy institutional subversion by the all-powerful foreign interests and their local players, in addition to creating pernicious tensions between state institutions. These weigh as some of the key causes of economic failure and prolonged weak recovery. Channelling finance away from real capital development, economic transformation and structural transformation towards financialisation is the hallmark of SA's macroeconomic policy framework and its institutional design.

And as all public policy is distributional, without redound to the vast majority of citizens, the SA macroeconomic policy regime and its institutional design can only be described as abject failure. They have created a high distributional bias towards financial income at the expense of earned income. And as expected, the outcomes are unambiguous: failed structural transformation - including premature deindustrialisation; unreformed ownership patterns; inequality of the order unmatched by any other nation on earth; an unemployment level only typical of nations ravaged by war; untold poverty and the financialisation of all forms of commerce and industry.

The magnitude of these shocks took a turn for the worse after the African National Congress (ANC) came to power in 1994. Should this be surprising? Such failure should have been expected. What is incredibly striking however, is the fact that ordinary South Africans, the ANC, let alone government and the cheering local economists did not and are not about to see the corrupting policy regime, let alone change it.

The policy and institutional failure itself adds to the available statistical evidence for most developing and transition economies that uncritically adopted the Washington Consensus framework (Gore, 2000; Dutraive, 2009; Obstfeld, 2011). The supposed avant-garde of South Africa's development practice, the (IMF/World Bank) have little to show for as their policy success. Despite a disastrous record, their advice however continues to be well heeded by bureaucrats, the ANC political elite and the economic establishment.

What these failures beg nonetheless is an alternative institutional design structure and policy framework (elements of which are outlined below) that meet the needs of and are relevant to the context of South Africa. What South Africa adopted was a framework that lacks efficiency in servicing the real economy, especially the majority. The government and the ANC have been perfecting inefficiency for the past many years. The institutional gulf between fiscal and monetary authorities has undermined the macroeconomic glue and cut the economic air necessary to support and strengthen the productive sector but has also failed to keep away unproductive footloose foreign capital currently causing currency gyrations that fan unneeded inflationary pressures in the economy. Whither to then?

A frail democracy that emerged from a century of very bitter economic and financial apartheid, which apartheid is still very much intact and being subtly fought to remain unreformed can ill afford parts of its policy apparatus (especially the reserve bank) to enjoy technocratic exceptionalism (Best, 2018:). This is the case especially when a strong, unified, coordinated and accountable state is what is required to marshal and direct the so many transformative changes needed to socially and economically engineer a new landscape.

Tensions arising from an imposed institutional framework have rendered the state weak, directionless and prone to the exertion of undue influence (capture) from outside and inside the country. What is more, generations of poverty, degradation and dehumanisation wrought by apartheid have loosened the nation's intellectual and moral virtues, rendering the people vulnerable to easy but sophisticated influence and incentives by powerful interests, not excluding those behind the imposed current institutional design.

What is difficult for the SA authorities however is to escape from these failed policies and the institutional design upon which long spurious career prestige has been built and awards accepted. With the contours of an alternative neoliberal approach nowhere on the horizon, the authorities' other difficulty lies in disentangling their well-knit neoliberal labyrinth for an empirically acceptable alternative (as being presented below) that would disrupt their only knowledge zones.

So what South Africa is left with is the kicking of a can down a tortuously winding road in the hope that chance will leap its way at the next bend. But where luck is the policy option, deflections of all manner, and opportunists of all shades in support of and profiting from, failed policies and poor institutional design, litter the pathway to nowhere, or to the total economic collapse that is now unfolding uncontrollably.

Response To The Crisis And The Maimed Economic Recovery

From Brasilia to Beijing, Washington to Tokyo and Sydney to London, the response to the 2007/8 crisis was spared no time by governments and their central banks. Unconventional macroeconomic tools that should have been conventional had it not been for the rise of neoliberal economics in the 1970s to date were unleashed on the collapsing economies of what would otherwise have been the worst economic crisis of all time. Good money was thrown at fraudulent money, just so to save the tumbling jobs and livelihoods. Credit spigots were fully let open. Even the recalcitrant European Central Bank (ECB), though late, succumbed to the sweeping collapse of Europe by announcing extreme rescue measures. Reserve banks "were the only game in town" in stopping the wreck, not least injecting well calibrated balanced sheet dosages into the veins of the real economies.

But what was South Africa's response?

Not unexpectedly, almost none. Despite GDP collapsing to minus 1.5% in 2009 from 5.4% in 2007, sweeping away both local and foreign demand that fuelled the previous growth, and with virtually all sectors of the economy contracting, including a loss of about one million jobs by 2009, in a country with one of the highest unemployment rates in the world, the crisis prompted no serious response from the South African authorities.

From the eruption of the crisis in August 2007, the South African Reserve Bank (SARB) continued to raise rates until December 2008 when it finally reversed course by reducing rates. This action occurred far later than other central banks. Instead of opening credit flows to the real economy, SARB used moral suasion to get banks to crimp, yes tighten their lending criteria while letting credit flow (Padayachee, 2011: 13). The late reduction of the bank rate (repo) from 12% in December 2008 to 5.5% in 2011 is about the only intervention the SARB made to the economy, only to tighten again. On the fiscal side, the only known serious spend was the soccer FIFA World Cup 2010 infrastructure expenditure planned before the crisis. Much like the pre-crisis growth, the flattened 1% average growth from 2008 to 2018 accrued to the financial services or FIRE (finance, insurance and real estate) sector. This bias towards the Fire sector does not appear to bother the authorities.

In 2006, when the economy registered the highest economic growth since 1994 to date (5.6%), lending (credit) to the non-bank sector was growing at 25% per annum, with mortgages growing at 30% per annum (Kantor, 2018). Credit collapsed to 2.3% in September 2009, the lowest in 43 years (since 1966). From 2009 to 2018, credit growth averaged about 5.5% (SARB, 2019)(Quarterly Bulletin, March 2019). Nearly 50% of credit goes to mortgages. This shows how the real sector is starved of money and with it, weak recovery and growth.

With such a dramatic fall in credit and GDP growth, and no recovery, the Reserve Bank and the economic establishment saw profound economic merit in disregarding the need to boost credit but elevated ringing calls for the urgent implementation of their ingrained conceit of structural reforms, the tightening of the fiscal tap and tax increases (fiscal consolidation) as remedies for the malaise. Anyone straying out of this consensus, as the author is so infamous for, was and is deemed misguided. Giving credence to this failed consensus are the dizzying numbers of reports from the OECD, BIS, IMF, World Bank, rating agencies and related institutions, the main knowledge source for SA's economic establishment and authorities, continually piling pressure on authorities to implement these policies and stay the course. Empirically grounded suggestions that challenge the course are quickly and airily dismissed and labelled "populist" by the governor, the minister of finance and their yoked economists. Sadly, there is almost total unanimity about this approach in South Africa.

Such is how contradictory and intellectually incoherent an approach to recovery things are in South Africa. Dare a competent nation suggest that measures whose effect is to reduce national income (fiscal consolidation) and those that fan deflationary pressures (structural reforms) be recommended as solutions for recovery and growing a demand-drained, unemployment-laden and depressed economy? Dare a competent monetary authority think that monetary accommodation (a cut in interest rates alone) in a downturn, let alone in the severe downturn of 2007/8 can definitively and sufficiently generate enough private sector demand for credit when the general outlook for firm profitability and household income remains weak? And why should such an authority have a dim view of suggestions of a fiscal stimulus, let alone anything beyond interest rate cuts? If these misguided policy positions pervade the most advanced economy on the continent, what hope is there for the rest of Africa yearning for economic leadership?

And since the said foreign financial institutions are the unimpeachable authority upon which SA authorities and local economists depend for development strategy and macroeconomic policy direction, silence on the failed development model and the macroeconomic policy regime are total from Treasury, the Department of Trade and Industry, the Reserve Bank and their allied economists. The baleful and deleterious effects on the economy of such ringing calls seem unimportant to the authorities and their supporting economists as they see them as short-run pain necessary for long-run gains. Yet the short-run lasts decades and the long run just never appears. 25 years of pain is still short-run.

For most citizens however, these calls show how subservience to financial power and wealth manifests itself in the form of economic policy and intellectual sadism. Intellectual or policy capture? We know that at the height of the crisis, even zealots of this failed policy framework abandoned their love for short-run pain or their intellectual sadistic postures. Aware of how difficult it would be to dig their economies of out of the hole once they failed to act quickly and unconventionally.

The SARB's daily hymnal warnings about currency debasement and inflation against ideas beyond their interest rate policy reach such as quantitative easing, credit guidance and others, reminds me of similarly misguided warnings in a letter to then head of the US Central Bank, Ben Bernanke from some 'prominent' academic and professional economists about the unconventional policy of quantitative easing. They counselled that QE would debase the dollar and cause hyperinflation. Twelve years on, not the slightest dint of any of their predictions. Economic science?

In various forums, this author has elevated the call for the use of reserve bank balance sheet, (not in the manner used in the UK and Japan) especially the asset side, as a vital monetary policy tool not only for sustainable developmental purposes but also to urgently shore up SA's moribund economy and prepare for climate change. However, the ideas have been laughed out on account of the worn-out dogma of currency debasement and inflation. Yet, the SARB and the army of local and foreign supporters have yet to show a known working theory of inflation, from their school of thought, to support their calls (Tarullo, 2017; Yellen, 2017)(Federal Reserve)

Structural Policies: SA's Supposed Miracle Cure

Besides fiscal consolidation, what is also noteworthy from the authorities and local professional and academic economists is the universal search for macroeconomic consequences from haystacks of microeconomic doctrines. At the centre of their economic recovery, employment growth, debt reduction and sustained growth are calls for policy reforms around product markets, labour laws and poor skills. According to them, employment laws are some of the toughest (restrictive) in the world and should thus be simplified (deregulated) if jobs are to be created and growth obtained, say countless reports in South Africa, from the OECD and elsewhere upon which such calls are based.

Yet evidence points the opposite. OECD's own evidence shows that South Africa ranks 4th of a total of 40 countries examined (36 OECD plus 4 non-OECD), with the weakest protection of workers after the US, Canada, UK and New Zealand (Van Reenen J, 2012; OECD, 2012), US having the most flexible labour laws.

Labour market deregulation, whose supposed magical effects on growth, competitiveness and job creation have long been sold by the IMF and OECD and continues to be evangelised without question by the SARB and its local economists to a rather suspicious and exhausted nation as the central path to better prospects. Yet again, IMF's own analysis (World Economic Outlook- Chapter 3) shows that labour market deregulation has negative effects on productivity (IMF, 2015: 104). On structural reforms generally, evangelised to the point of being a miracle cure for SA economic and development ills by the authorities and the local economists, former IMF's Olivier Blanchard's euphemism is that "structural reforms are no miracle cure. They are hard to get through. The effects are very often uncertain".

Yet recently released economic strategy document by Treasury (27 August 2019), seeking to address the 11 years of embarrassing economic performance caused by insufficient aggregate demand, is instead focussing on the supply side. It addresses potential growth (microeconomic reforms) i.e.– structural reforms, yet what ills the economy are cyclical issues. Cyclical policies should solve immediate challenges of joblessness, daily increasing retrenchments, immediate return to growth and for factories and service providers whose goods and services cant be sold due to the absence of demand.

But even if 'structural reforms' were to suddenly turn miraculous for South Africa alone, the economics of structural reforms dictate that they should not be undertaken in depressed economic conditions such as the ones prevailing in South Africa today and since 2008. Moreover, it is the demand side of the economy, not the supply side that has sickened South Africa. Indeed, virtually all factor inputs are highly underutilised in SA. Not to mention the high human waste (labour), capacity utilisation fell to 78% in 2009, remaining around 82% since the crisis. Insufficient demand accounts for about two-thirds of the reasons why factory utilisation is low (South African Market Insights, 2019). Bankruptcies are soaring monthly. Surveys by the official Statistics South Africa confirm this assertion. Instead of promoting measures to boost demand, perhaps unsurprisingly, the SARB and Treasury train their noise on supply-side factors unrelated to the immediate economic challenges.

What is clear though is, as with fiscal consolidation, claims or calls by the governor of the SARB and the supporting economists about the alleged benefits of their type of structural reforms are not drawn on the basis of any measurable data at all but purely on ideological grounds. No evidence is given of any nation, having undergone structural reforms to have outperformed its previous records of growth, jobs etc. Greece?

With such hard-to-see basis for their calls for structural reforms in the current SA environment, one begins to understand and agree with Nobel economist Paul Krugman's view that "structural reforms are the last refuge of scoundrels" (Krugman, 2014). Could such unwarranted faith in structural reforms and related dead economic dogmas be mere smokescreens for some unknown agendas?

While some structural reforms may be necessary, their (SARB's etc.) type of reforms do not comport with evidence. Instead, this author calls for the following structural reforms that are never voiced by the SARB, Treasury and local economists yet critical: finance, public investment, environment and inequality.

Finance: the nation's current levels of poverty and unemployment and the failure to recover and grow sustainably are contributed by the underlying structural problems of how our financial system is designed and organised. Concentrated among very few but highly profitable private banks with highly rationed credit, monetary policy transmission entirely dependent on private sector financial infrastructure is both costly and risky, especially for a fragile democracy. It should be structurally reformed not only to serve the broader public but to be owned by the public and not by a few.

Public Investment: With finance reformed to serve the public, public investment in social and economic infrastructure at cheap cost to the economy and people should be made by a national public purpose banking system and finance, not through the costly, short-term and market based volatile international finance that makes the network industries contribute to the high price structure of the economy.

Environment: the economic and financial uncertainties (costs) caused by the cumulative effects of climate change are often hard to both see and estimate (measure), thus requiring urgent reform and attention by monetary authorities. These manifest themselves in the increased cost of insurance, power, the disappearance of arable land, therefore food costs and other commodities- hence poor growth and inflation. There can no longer be indifference by governments or their central banks in tackling climate related matters.

Inequality: Arresting inequality must be urgent for any government. The ever-widening inequality with its pernicious effects on aggregate demand is so severe than is compatible with high levels of aggregate demand necessary for sustained and balanced growth.

On product markets, the governor (Kganyago, 2016) laments the high cost of network industries, yet almost all are state controlled: telecoms, energy and transport. Monetary and fiscal authorities fail to see that their policy stances (unmitigated flows of hot money, currency volatility, market-based local and foreign borrowings, high interest rates etc.) contribute to the elevated price structure of the SA economy.

The deafening silence on fiscal and monetary policy reforms can only point to three things: what Thorstein Veblen calls "trained incapacity", thus incompetence, capture and or both.

If the most damaging economic crisis since the great depression, the unprecedented suffering of the SA population, the universal acknowledgement of a failed undergirding macroeconomic framework and the dark clouds of a revolution cannot move the monetary and fiscal authorities to change course, what will? Indeed if the attention of these people cannot be shifted by near-calamitous economic events and by the collapse of their worldview, then they are simply beyond reach, perhaps only enveloped by a corrosive capture and groupthink of both historic and biblical proportions. The nation can scarcely afford such people to run public institutions.

Dare the country and the world therefore be convinced that the recent loss of moral virtues evidenced in the State Capture saga is restricted to a few politicians, their collaborating bureaucrats and their private sector captors? It seems to reason that this goes deep into the intellectual and policy spheres where the nuts and bolts of SA's economic machine is. How else do we explain this strange posture if not for a combination of incompetence, self-interest, loosened moral restraints and meta-structural factors of influence, thus capture?

Instead of using the global economic seismic event of 2007/8, whose aftershocks remain highly elevated, along with the blinding unemployment and poverty as a provocation to totally reorient the messed macroeconomic tables of this economy, we notice pompous mediocrity extended to the recent assembly of an economic colloquium that elevates the same intellectually and policy failed ideas from the same stranded economists, frozen in the equilibrium economics that caused the mess that South Africa is in. In the quest to remain tightly neoliberal, they never once missed inviting the World Bank to validate their neoliberal path.

South Africa is an economy whose poverty, inequality and waste of human capital (unemployment) are only comparable to a country at war. The heinous cost of macroeconomic incompetence/capture or both must rank, in terms of resource misallocation (destruction of economic value), among the most expensive economic dislocation in the world, comparable to the crimes of apartheid and colonialism projects.

A developmental state, a dependent development (neoliberal) economic policy regime

Monetary Policy

In the interest of balanced and sustainable economic growth of South Africa, the reserve bank shall protect the value of the currency (the Rand). This is the primary mandate of SARB, inscribed in the Constitution of the Republic. According to the inflation targeting doctrine, the tool for achieving price stability is the short-term interest rates, otherwise commonly known as the repurchase rate (repo). As expected, today, like yesterday, balanced and sustainable economic growth is a dream indefinitely deferred!

It should not take a smart macroeconomist, nor should one await a 2007/8 crisis to show that such a mandate is unfit for developing economies, more so one bequeathed with economic apartheid and a complex social disorder. SARB's mandate is not unlike the ECB's one or any advanced nation central bank mandate**.** Why? And why should a bank mandate, which can change with changing policy circumstances, be embedded in a difficult to change Constitution**?**

Japan and the evolution of monetary policy

In his work on the evolution of monetary policy in Japan,(Shizume, 2018) details the monetary policy journey of a developing economy central bank – the Reserve Bank of Japan (Bank of Japan) - to a mature economy central bank of Japan. He centres his argument on the wisdom and the practical genius of recognising the bank's goals and instruments as critical for a developmental state, and different to those of a mature economy. That is a path travelled by the central banks of all high-income (OECD?) nations, yet it is a distinction somehow difficult for the ruling ANC leadership to grasp. Not just the ANC leadership, but also the Treasury, SA's economic establishment and indeed the Reserve Bank itself, not to mention the troops that make up the mainstream economic establishment.

Providing money for development, Shizume writes, was the ultimate goal of monetary policy for a developing Japan, with maintaining financial and price stability subordinated to that goal. After achieving sufficient industrialisation and becoming an advanced economy, the goal shifted from development to stability. Without money (from its own bank), what development can be had by any nation, if not only to be saddled with foreign and outside debt?

Developmental central banking was not unique to post-war Japan, itself a pupil of the Germanic economic system and developmental central banking (Werner, 2003). Modern-day Canada was transformed into an industrial nation with its central bank (Bank of Canada) at the centre of industrial and infrastructural development. Cooperating with its government, the Bank of Canada was directly and indirectly, involved in monetary financing to support fiscal expansion, economic growth and industrialisation- without stocking inflation (Brown EH, 2013; Ryan-Collins J, 2015).

Observing the economic collapse and subsequent poor economic performance due to the crisis in many developing nations, the International Labour Organisation (ILO), has gone to advocate a move towards what (Epstein, 2015) notes as the historic role of developmental central banks of France, Japan and indeed what we currently see in China and Bangladesh. The ILO research documents show how the Reserve Bank of Bangladesh (Bangladesh Bank) intervened in ensuring access to finance for farmers at highly reduced rates, access to finance for SMEs and women enterprises and many others (ILO, 2017). Besides, it was also the first central bank in the world to issue “Green Banking Policy”. Acknowledging his contribution, the UN 2012 Climate Change conference, Doha, Qatar crowned the governor the “Green Governor”.

The example of Bangladesh

According to the Bangladesh Daily Sun, at the height of the crisis (2009) when poor "external demand was having significant impact on Bangladesh’s exports", the Governor of the Reserve Bank of Bangladesh did many things.

> “One of his decisive actions was to offset this (poor demand) by injecting capital towards farming and non-farming SMEs in order to stimulate demand…. Redefining the role of a typical central bank governor, Dr Atiur Rahman’s successful policies have helped millions of Bangladeshis to open bank accounts and forced banks into lending money to farmers, SMEs, women entrepreneurs and green textile businesses, while at the same time curbing speculative investments”. In his own words, the governor said, “Our monetary policy strength is that we do not put money in the air, as many western countries have done. We put money on the ground so that some seeds are sown and we get products. Basically, we are not placing money in unproductive expenditure or in something speculative. Instead, we are providing money to agriculture, green textiles and SMEs. We make it mandatory that at least 15% of the funds are given at a lower rate of interest.”

During his tenure, inflation was brought down to 7% from 12%, with currency stable while at the same time having injected money (directing credit) into the economy, which is now thriving extensively. It is being elevated from a least developed nation to a developing country.

Besides the said actions, the ILO notes interventions that could include reserve requirements for loans targeted towards policy sectors, and differentiated interest rates (Galli, 2017). The former governor, Dr Atiur Rahman personally ensured that the bank embraced a broader mandate, including those of greening the economy and financial inclusion – by way of supporting and regulating microfinance (Rahman, 2017), which incidentally has been catastrophic in South Africa with the reserve bank’s eyes wide open.

A broadened mandate is central for developing nations, argues professor Rahman. The ILO and UNCTAD (2013) both fully subscribe to the governor’s views and approach. The increased focus on SMEs by the Bangladesh Bank reached levels unmatched by any central bank in the world, says a report by Worldfolio, upending the tiring vacuous arguments (noises) of inflation, no broader mandate etc. by the South African Reserve Bank.

Governor Rahman’s call for a broader mandate for developing nation reserve banks and close working relations with governments (a call so hated by South African Reserve Bank and its local "economists") is one that is grounded in empirical evidence. Indeed, not only should the mandates of the developing nation reserve banks be broadened, so too the number and kinds of instruments employed be increased, not excluding macroprudential regulations for keeping track (guidance) of what is being financed in the economy. And as correctly observed, all these require a reassessment of the idea that central banks must maintain their independence (Blanchard, 2013).

The Bangladeshi quantitative monetary easing, otherwise commonly known as quantitative easing (QE), done at the height of the crisis should be a lesson to South African monetary authorities and their supporters who misguidedly continue to mislead the nation about what QE is and its effects. The hysterical claims around the notion that South Africa requires interest rates and inflation to be zero or near zero have no basis in QE theory, let alone in evidence. The Bangladesh governor's own words are instructive:

> The recent global financial crisis in the developed countries has brought into focus the role of a central bank, particularly in a developing country like Bangladesh, to become broader rather than narrower to cope with the challenges of shrinking demand both in the global and domestic contexts. The narrow response by a conventional central bank has been to create more money and 'helicopter' the same to affected financial institutions without impacting greatly the real economy. On the other hand, the innovative central banks took the newly created money with 'bullock carts' to the ground and impacted real economy both from demand and supply sides. In the process, not only the domestic demand has been upheld but also the supply chains remain robust. The end result has been the desired stability of the economy with expected growth process remaining in motion without enhancing inflationary pressure. The stability outcomes of the latter approach of central banking have indeed been stunning..."
> (Rahman, 2017)

Contrasting the Bangladesh efforts and similar monetary interventions in China, Brazil and other developing nations with the stance (interest rate approach) taken by South Africa, one is left to choose, again, between incompetence, capture or both. In such very unusual economic circumstances, extraordinary measures are needed, but clinging to the inflation bogeyman, which it does not even understand properly, defeats logic.

Credit and credit guidance

Direct support for the SMEs sector by reserve banks, including credit guidance to policy sectors before and in the aftermath of the crisis, is not a province of developing nations alone. Mugged by the violent realities of the crisis (unemployment, collapsed economies etc.) developed nations' monetary policy turned developmental. The European Central Bank (ECB) took exceptional measures to support their SMEs, recognising their significance to employment, exports and living standards. The ECB's Targeted Long-Term Refinancing Operations (TLTRO), which was aimed at non-financial firms and household consumption but not mortgages is one such support to the collapsed economy. The TLTRO continues to date, as TLTRO III as of June 2019. The Bank of Japan (2014) and Bank of England's (BoE) Funding for Lending schemes were directed at small business sector (Churm et al., 2012). Evidence indicates that these have been successful. Besides the direct SME support, the BoE went further to restrict lending to the mortgages sector.

While these balance sheet actions by both developed and developing nation reserve banks were directed at supporting the collapsed aggregate demand and countervailing the collapsed credit supply to firms and individuals, there is nothing preventing a reserve bank of a devastated country like South Africa to use its balance sheet together with macro-prudential policies to right the failed structural transformation, growth and unemployment as many nations had previously done and continue to do so today?

Given the intractable social and economic challenges the ANC government was bequeathed with, wouldn't such common sense developmental central banking, by any reckoning, be so profoundly welcome, let alone be the primary way of conducting monetary policy?

The need for developmental banking can certainly not be apparent only if one's cognitive abilities have been warped by some meta-structural factors, especially those of (international) finance. Incredulously, the developmental cognitive abilities remain sharp when it comes to their (reserve bank leadership and other economists) support for the strict implementation of the World Trade Organisation's (WTO) Special and Differential Treatment (STD) provisions on the global trade agenda. Can't we have special and differential treatment for the dangerous and fragile finance in a collapsed economy?

And sadly, the SARB is adamantly opposed to any of this, preferring instead to remain wedded to the price stability mandate only, using inflation targeting as the most appropriate framework. Structural reforms, as shown above, have become the mantra of the reserve bank, appropriating a mandate that belongs elsewhere to itself, while shirking its real role for its existence. Indeed, the thunderous dins of structural reforms to South Africans from the IMF, OECD, World Bank, BIS and rating agencies could not have found a more pliant lightning rod. History reminds us though that such un-mandated calls for structural reforms by reserve banks are not ideologically innocent. Could national interests have been betrayed!

The institutional and governance settings of a developing country reserve bank should be consistent with a nation's developmental objectives (national goals) and not one that answers to the political mandates of the IMF, OECD, World Bank or BIS and their associated institutions. Different settings demand differentiated approach and institutions. At the centre of SARB's mandate, as with many similar developing nations, central banks should be to help advance the generation of productive employment, the allocation of disaggregated credit to productive sectors of the economy, and helping tackle climate change/green economy challenges. While price stability is important, it can as well be achieved using empirically superior frameworks than the employment and output sapping inflation targeting (Mitchell W, 2009). What is implied by inflation targeting is that a reserve bank should have a single mandate of lowering inflation and keeping it stable with only one instrument in use: interest rates. Such a regime is wholly unsuited for a country with war-level unemployment, highest inequality on earth and one with permanent financial instability that South Africa proudly wears.

As shown in Japan, Canada and elsewhere where their reserve banks were actively involved in guiding investment (credit) to policy sectors, inflation was well within acceptable levels. Working closely together to further national interests, the Reserve Bank supported by key economic ministries such as Trade and Industry and Finance could unleash the potential SA has. Just as various developing nation reserve banks are furiously collaborating with their departments of environment, the SARB should depart from a misguided aloof to being fully engaged in national issues of climate change, mandate expansion, working with the relevant departments, including having green bonds and related instruments.

With blinders of neoclassical theory on, SARB's blinkered focus on the empirically dubious interest rates (Stiglitz, 2016; Lee & Werner, 2018) as a primary monetary policy tool, along with an open capital account, have led to rampant financialisation of the economy, currency volatility and deindustrialisation at a mass scale and left the economy macroeconomically unstable. The opening of a capital account is premised on a fundamentally flawed understanding of banking; where banks are read as lenders of collected scarce savings which South Africa doesn't have and thus must resort to foreign flows of savings for investment and hence growth.

Post-Keynesians and many other earlier economists – Keynes included of course - had long known of the savings-to-investment myth and its associated loanable funds doctrine (the bedrock of a highly faulty foundation of SA's development model) -as unsound and empirically unsupported and that banks are creators of money supply, not collectors of scares savings, as recently confirmed by many reserve banks including (BoE, 2014; Bundesbank, 2017).

Bank credit and 'hot money'

Without constraints on capital mobility, developing nation's fiscal and interest rate based monetary policy will forever leave a country hostage to the whims of especially portfolio investors (nomadic yield hunters or speculators). So far, three-quarters of all so-called foreign investment in South Africa is hot money (speculative money). How of currency gyrations for this so-called 'emerging' economy whose wish is to see stable currency and stable prices?

In addition to the above macro-prudential tools of directing/guiding credit and excess risk taking and others, South Africa should use all capital flow management tools (capital controls) to keep away footloose international capital whose primary presence is to extract an immediate profit while simultaneously holding the capability of dangerously propagating contagion when a crisis occurs. The misguided notion that such functionless capital is helpful for deficits is without sound macroeconomic basis.

In regard to growth, monetary policy based solely on the rate of interest is not only as naïve as its progenitor, the quantity of money theory of inflation (often called Quantity Theory of Money) but fails to appreciate how credit affects the economy in such fundamental ways that it could easily be demonstrated even under the textbook pseudo-Keynesian IS-LM model (Bernanke & Blinder 1983, Bernanke, 1988) where the superiority of the credit mechanism is unchallenged by either the money or price of money view. It is further asserted here that with the central banks globally added mandate of financial stability, focus on disaggregated credit will be far more helpful than on money or its price. Indeed, as the monetary economist John M Keynes penetratingly observed,

> "bank credit is the pavement along which production travels, and the bankers if they knew their duty, would provide the transport facilities to just the extent that is required in order that the productive powers of the community can be employed at their full capacity".

If central bankers prioritized the economic interests of their respective nations, they would be at the centre of providing monetary policy transport facilities (public financial infrastructure) upon which real monetary policy is dependent.

The role of credit in aggregate demand and income, though contested, should be clear by now, especially from the endogenous money perspective. It is from this perspective, not from the discredited loanable funds model that this author belabours monetary policy in SA.

Now that the story of the savings tail wagging the investment head has been laid to rest, greater fixed capital formation, including structural transformation, leads us to emphatically conclude that credit, especially bank credit, instead of money or interest rates, should the real focus of monetary policy and macroeconomic analysis for South Africa and other developing nations, if not for economics in general. The author is not unaware of the exogeneity of credit especially in the context of South Africa's economic apartheid system where credit markets are and continue to be highly rationed, and how the role of both the reserve bank and other state banks can play in terms of quantity and direction of credit- especially for the so much needed structural transformation, economic transformation (patterns of ownership and control) and employment.

What I seek to emphasize here as the primary effective monetary policy tool for SA and other developing nations is the focus on direct credit as a primary monetary policy transmission mechanism, deploying the power of the SARB balance sheet to not only revive the economy out of its long coma but set it up for sustained green growth and innovation.

However, not all forms of credit are useful for growth, development and innovation. Functional differentiation of credit is critical as observed by Schumpeter, Keynes, Friedman, Minsky etc. and empirically corroborated by Werner. Karl Marx also distinguished between "credit whose volume grows with the growing volume of value of production" as opposed to other money capital (Capital, 1906 [1887] Chp 30- First English Edition). What is implied by all this 'credit' emphasis is that interest rates do not drive growth, but credit does (Lee & Werner, 2018; Uhlig, 2003).

There is nothing developmental about heavy dependence on the short-term interest rate tool as applied by SARB however useful this liquidity preference apparatus is. While liquidity preference is important, the majority poor South Africans however have weak or no portfolio positions and thus cannot optimize over the yield curve as they don't have either the required cash flow, capital or even collateral to play the curve as would the very few rich and the many yield hunting foreigners who flood their speculative money in South Africa. The majority who optimize over the yield curve remain foreigners and a few SA institutional investors.

Instead of focusing on this indirect method of setting short-term interest rates, which encourages short-termism in the economy, as is the case today, the SA economy would be better served by a monetary policy management that looks to target the entire yield curve. Preferably would be a case where the yield curve is steep. A steep yield curve is profitable for financial institutions, encourages lending in long-term productive economic activities, which is what is required for capital development and economic growth generally.

A coordinated government intervention (Treasury and DTI supported by the Reserve Bank) is thus crucial to direct such an environment that brings about profitability to all economic players, more so to those that engage in productive activities. (Keynes, 1936:205-206) sought to emphasize the significance of attending to both the short and long term rates to effect better management of monetary policy.

The nation's primitive understanding of money and indeed banking leads to the misguided use of tools that are highly anti-developmental but also tools that are drivers of financialisation in the economy with its attendant currency risks, poverty and inequality generation. Aldasoro

Therefore, for monetary policy to be seen to be effective and capable of even delivering beyond its cyclical ability is if it works not through money or the price of money, but credit. Credit needs to be guided otherwise it will be aimed at speculative, unproductive sectors of the economy. And for better macroeconomic outcomes, bank-based credit, not market-based finance should be the guiding rod towards the elimination of inequality, poverty, unemployment and the achievement of stable prices while repairing the current broken rungs of South Africa's structural transformation ladder. And as empirically demonstrated by (Aldasoro & Unger, 2017), non-bank credit may as well have negative effect on GDP, whereas bank credit increases the nominal purchasing power of the economy, and thus GDP. Depending on the economic agents that receive the credit and their type of utilisation, both the sectoral structure of the economy and the composition of the aggregate demand can easily be improved in the direction that enhances the nation's position. As highlighted above, it is credit that is so central to a nation's economic fortunes, including the appropriate management of inflation.

Indeed, as Harvard's Benjamin Friedman recently observed: "One highly useful lesson from the crisis is that although we conventionally use the label 'monetary policy' to refer to the macroeconomic policy central banks carry out, the way this policy works revolves around credit, not money" (Friedman BM, 2012).

Fiscal Policy

South Africa's fiscal regime, like most others, is simple: where tax collections fall short of expenditure, either abandon expenditure or the deficit should be financed by increased taxes or borrowing from markets (bonds), both local and foreign. How effective this approach is in raising economic growth becomes an empirical question.

Indeed, if fiscal policy is to be unquestionably effective in raising national income and thus removing the unemployment of human and other resources, then the method of financing government expenditure becomes the central issue. Where government's expenditure represents newly created money, i.e. new purchasing power and therefore an addition to total effective demand, there is no doubt that such money will exert extra purchasing force with an expansionary effect on the economy. Any other form of government expenditure (bonds etc.) will, undoubtedly, have poor to middling effect on the economy. This can't be controversial, or is it?

Proven Success

Monetary financing of fiscal expenditure, especially using sovereign money (money created by the Reserve Bank or State Banks) is not uncommon and its effectiveness is beyond doubt, more so in a country with such high levels of unemployment and unutilised resources. A Bank of Japan Review article by Masato (Shizume, 2009) notes "Japan recorded much larger fiscal deficits than the other countries throughout Takahashi's term as Finance Minister in the 1930s". "A number of observers who focus on the macroeconomic aspects of Takahashi economic policy praise Takahashi's achievements as the pioneer of Keynesian economics", he continues. The Bank of Japan financed the deficit. Finance Minister Korekiyo Takahashi, known as the Japan's Keynes, a former governor of the Bank of Japan himself was acutely aware of the developmental and macroeconomic effectiveness of such an operation in lifting Japan from the Great Depression and stabilising the economy.

While minister Takahashi had done more than just ensure the Diet (Parliament) pass the policy approach of the Bank of Japan underwriting government bonds (use reserve bank money to facilitate government spending), he also unplugged Japan from the Gold Standard thus devaluing the Yen to the Dollar by about 60%, and having the Bank of Japan ease interest rates a few times. These factors did contribute to stimulating the economy. But as South Korean scholar's decomposition of which stimulus factors contributed immensely to Japan's recovery, Myung Soo Cha, 2000 concludes,

> "…Takahashi saved Japan from the Great Depression. In particular, his deficit spending was found to have been crucial in ending the depression quickly. Financing a major portion by printing money, the Bank of Japan was at the same time absorbing liquidity to prevent inflation from getting out of control".

Today, Japan's net debt increase is financed by the reserve bank buying government bonds whereas in China, its central bank indirectly finances its government bonds purchases via its State-Owned commercial Banks.

Takahashi was not unaware of external debt financing of Japan's fiscal operations as to use it. His deliberate use of the reserve bank lends credence to the important monetisation of fiscal policy was for not only recovery but growth and macroeconomic stability. It perhaps suggests that he understood that un-monetised fiscal policy would be far less effective as desired by the circumstances of the time (depressed economy, unemployment, structural transformation and of course lowering the price structure of the Japanese economy). But as Solow and Blinder, 1973 note in their "Does Fiscal Policy Matter?" paper, this idea was not new.

> "Before Keynes, it was commonplace that government spending and taxation were powerless to affect aggregate spending and employment in the economy, they could only redirect resources from the private sector to the public sector.."

But how does this monetary financing stack-up to Keynes' preferred approach in the *General Theory* of 'loan financing' or that government must finance expenditure by borrowing? Perhaps recognizing the institutional settings of the time, Keynes advocated what would be described as effectively debt free money. On this, Tily (2015) illuminates:

> In his public initiatives, he gave little more detail on the specifics of 'loan financing'. These cannot be understood apart from the broader context of his initiatives to set low interest rates across all government borrowing instruments; conventionally these would be understood as monetary policy initiatives aimed at reviving the private sector. The imperative was that any additional government borrowing should not distort the desired conditions of interest, and this meant a potential role for so-called 'monetary financing', especially when spending was running rapidly ahead of available saving. In World War Two the vast rise in government spending and rapid deployment of previously idle resources meant an ongoing substantial need for monetary financing. The Treasury devised a new mechanism – 'Treasury deposit receipts' (TDRs) – through which retail/high-street banks were obliged to create money (i.e. a *deposit*) and lend it to the government (*Treasury*) in exchange for a piece of paper (*receipt*). An alternative source of monetary financing is to have the central bank create the deposits; today this idea has been captured as 'peoples' quantitative easing'.

This approach of monetising fiscal policy using private commercial banks instead of the central bank is also well elaborated by Werner (2014). While both Keynes and Werner's views in regard to the use of domestic commercial banks loan contracts are sound and can obviate several challenges associated with securitised debt instruments, this author's preference however lies with local banks being largely domestically owned, not foreign owned, thus monetising without unnecessary leakages to foreign nations.

Indeed, the efficacy of the above fiscal measures in helping remove the unemployment of human and other resources occasioned by deficient demand can also be shown under the IS-LM model. Aside from the lowering of taxes which causes the IS function to shift rightwards due to increased consumption, and thus increased aggregate demand, the effectiveness of monetised fiscal policy can be achieved by borrowing from the banking system. In such a case, the LM schedule will shift to the right resulting in a much larger increase in income than when funds are borrowed from the non-bank public (bonds). Hence my numerous calls for not-for-profit State Banks/Public banks have these bases among many others. Absent public banks, as is the case in SA, the central bank (sovereign money) is the best way out. This also ensures that the artificial separation and the draining power dynamics between Treasury and Reserve Bank, a fissure easily exploitable by outside interests is narrowed.

Elsewhere, Werner notes that the policy of shifting government funding from bonds to commercial bank money was adopted by the Governor of the Reserve Bank of Germany (Reichsbank), Dr Hjalmar Horace Schacht in 1933 to 1937. Note the coincidence of time between J M Keynes/UK Treasury adoption of the Treasury Deposit Receipts (TDR) above, Germany and Japan. Werner calls this funding of fiscal expenditure with money creation instead of public bond auctions as *Geräuschlose Finanzieurung* ('silent funding') in his German tradition (Werner, 2003).

The quantity crowding out effect of bond sales, thus making fiscal policy ineffective, could as well be the main reason for shifting to bank based loan contracts (monetising fiscal policy) in the case of Japan.

Lord Adair Turner, supporting the monetary financing of government expenditure, firmly notes that

> "Monetary finance of increased fiscal deficit will always stimulate aggregate nominal demand: in some circumstances it will be a more certain and/or less risky way to achieve that stimulation than any alternative policy lever: and the scale of stimulus can be appropriately calibrated and controlled..".

Invoking the father of inflation targeting and right-wing, arch free-market economists Milton Friedman (1948) who also supported monetary financing, Turner (2015) summarises that there are no economic reasons for not deploying monetary financing: it is "an essentially political issue".

If it is political, then what would be the political economy of democratic South Africa's decision to use securitised debt finance instead of money finance- when it is empirically established that monetary financing of government expenditure is far superior and developmentally supportive than the fragile market-based (securitized) debt finance?

In so far as this author can establish, the decision is an apartheid relic and itself an artefact of the Gold Standard era economics, in which frame of mind the South African authorities and local economists remain deeply frozen. Democratic South Africa has not revisited the decision. Thanks too to the undemocratic international financial institutions' (BIS/IMF/World Bank/OECD) pressure on SA, encouraged to use not just debt based but market-based debt instruments to finance expenditure or deficits.

This pressure, the author firmly believes, is to ensure that the control of money, and indeed banking, as instruments of state power do not enter the equation in democratic South Africa, otherwise it would dismantle the resource and economic stranglehold on SA of the main sponsors of these institutions. Sadly, the cloistered monetary and fiscal authorities, whose intellectual development is proudly owed to these institutions, and at whose altar they continually worship, defer to these institutions as their unimpeachable authority on matters of national development and macroeconomic direction. Yet, despite Africa's 62 years of pupillage and lionisation of these institutions, Africa has absolutely nothing to show for it.

Therefore, self-imposed anti-developmental practices of sourcing foreign and non-sovereign money to finance reductions in deficit are exacting a heavy price on the South African public in many ways beyond increasing national debt and its interest burden. This extends, unnecessarily, to State-Owned Entities, all caught up in debt and now being privatised through the backdoor of institutional investors coming to take up "strategic equity" stakes. These are not only increasing the price structure of a trade dependent economy but piling up more risks back into the public hands. On the pretext of saving the utility, private finance, almost entirely foreign, is being solicited for a national power utility Eskom. Poorly understood instruments dangled to the office of the president, the ANC and Treasury, intended to colonise SA's development have been allowed as solutions for what SA says is a constrained fiscus.

So, both inferior fiscal and debt management approaches, which Keynes sought to avoid, are enthusiastically taken on board by poor nations, to their own detriment.

Modern Monetary Theory

Post-Keynesian economists called Modern Monetary Theory (MMT), who also stand on the shoulders of Knapp, Innes, Keynes, Schumpeter, Lerner, Minsky and Godley argue, as above, that it is frivolous for currency issuing sovereign nations to borrow when they can create money. Overt Monetary Financing of government expenditure or deficits reductions should be the norm, not the exception if countries are to secure full employment and economic stability (Mitchell, 2016). While there are nuanced differences among supporters of monetary financing of state expenditure, the central issue remains: monetary financing is better than debt financing, especially for developing nations. Why should government import money or buy expensive local money when it can judiciously create it, and when the prerogative to create such money rests with State, which licences all others?

Blessed with too many merchants of hyperinflation, well-intentioned South Africans should lean on the available empirical evidence and proper knowledge of scientific macroeconomics to countervail the merchants of fear and policy capture.

Empirical evidence

As with many issues, there are always two sides, however, in regard to monetary financing of government expenditure, both neo-classical and heterodox economists agree, that monetary financing is preferable. The disdain for debt financed fiscal policy does not only start with Lerner, 1943 who rejected both the bond and tax financed fiscal policy. Keynes of the *Treatise on Money* (Keynes, 1930) said that funding fiscal expenditure with monetary expansion would indeed be stimulatory. He took this view of money with him to Her Majesty's Treasury (see Tily,2015 above) mightily deriding fiscal consolidation, which the South African Treasury and the Reserve Bank, disgracefully, see as a solution to both debt and growth.

On the other side, we see (Friedman, 1970:217) still in support of the monetary financing approach of the Friedman of 1948 (see above) and those before him. And without equivocation, (Blinder and Solow, 1973) echo similar views. These two go so far as to conclude that "There is no controversy over government spending financed by printing money. Both sides agree that it will be expansionary,.." (p.323).

In his seminal scholarship on the monetary aspects of Keynesian economics, Dudley Dillard's "The Economics of JM Keynes, The Theory of a Monetary Economy", expounds greatly on how money financed deficit is the most optimal for income growth and reducing unemployment (Dillard, 1948: 108-118).

Recent empirical evaluation of numerous debt-financed fiscal stimulations that were ineffective in pulling Japan out of its economic misery point to the failure of monetising its fiscal policy. Using a slightly modified model of the Pre-Keynes era quantity equation, (Werner, 2005), confirms the ineffectiveness of fiscal policy (of the type followed by SA) as due to being unaccompanied by monetary expansion: say credit creation.

If not incompetence, policy capture or both, what would reasonably hold an independent democratic state devastatingly savaged by the apartheid system, in desperate search for employment creation, debt reduction and sustained growth from adopting evidence based fiscal and monetary policy frameworks but opt to follow faith-based ideological economic hubris, even after the financial crisis has unquestionably trashed such faith based worldview? Laziness perhaps?

Sticking with and entrenching failure

As with the SARB's, interest rate policy, Treasury's conduct of fiscal policy shows the same failed intellectual and ideological streak. The total absence of democratic macroeconomics in South Africa is superlatively clear. The central fiscal objective is to close the budget deficit, through fiscal consolidation (spending cuts and tax rises). Unemployment and output are incidental. Even the February 2019 budget is simply redistributive, growth neutral and lacking imaginative ideas. Barely 6 months after the budget speech of "stabilising finances", the Minister of Finance ordered (August 2019) that all government departments should cut their budget spend, in view of debt increase. Government, as with the local economists, rejoice in seeing budget surpluses. The fiscal consolidation ideology is incredibly deep-rooted among academics and researchers too in SA. This is despite the difficulty of making an intellectual case in favour of austerity, given the so much empirical data that is stacked against it. The misguided phrase "stabilising finances" has entered parlance so as to activate the backward fiscal consolidation, privatisation of state firms through unbundling and related private finance ideas.

In the guise of "government cannot afford and the debt is high", government foreign advisers and their local partners, who can only be financial institutions whose appetite to financialise the SA economy is insatiable, have gone to suggest the disposal of Eskom's power stations (to pay part of Eskom's debt) and then force Eskom to procure power from its own sold plants. Transnet, another key state owned firm specialising in logistics is being advised to introduce "private players" with a view to bringing in efficiencies. A directionless government is using some of these failed ideas as their economic reform strategy.

Indeed, the wheeling to the citizenry of the consumer (household) budget constraints to government has been immensely successful, that even IMF's repudiation (neoliberalism: Oversold) of its own favoured religious stance let alone the lack of empirical support for such piety have failed to dampen their enthusiastic misguided embrace. 'Investors', whose influence on the polity is immeasurably strong if not total, have capitalised on such mass ignorance. So the Reserve Bank's fanatical obsession with inflation-targeting, using interest rates as a tool, enjoys an ideological partner at the Treasury in their much commonly desired fiscal surplus, where the thinking is that deficits are inflationary thus very undesirable. This delusional macroeconomic combination has been lethal for an already devastated developing nation!

What is not fully appreciated in these deficit/surplus debates are the mechanics at the central bank in terms of the movement of reserves and the economic implications of such transactions. Deficits end up creating reserves (new money) whereas surpluses end up reducing reserves (money destruction), but we constantly need the injection of new money if the economy is to continuously grow. These two forces need work closely together to effect a healthy economy. Dichotomising fiscal and monetary policies is economically unwarranted and cause the type of challenges South Africa is experiencing. But also, as Prof Paul Samuelson eloquently put it, our belief that government has to balance the budget over some budgetary period is a myth- calling it a "religion" and a "superstition". Economic conditions must dictate- often going into deficits (creating sufficient money/credit) when unemployment is acute, while going into surplus (draining money out) when at full employment level.

To date, almost the entire national economic bureaucracy, thinks that government's spending, like that of a household, is constrained by its financial wherewithal: tax collections. Use of sovereign money is taboo, as it is religiously held as "always and everywhere inflationary". And where deficits rear their head, irrespective of the economic conditions on the ground, market-based finance is the only available channel. It is for this and similar reasons that South Africa is the only African nation whose use of market-based instruments rivals those in advanced countries, but only to its own detriment.

Debt management and market based instruments

The process of borrowing from markets and the subsequent management of public debt follow the established guidelines in the debt management programme of the IMF/World Bank - recently updated on the instructions from the G20. Typically, instead of fiscal policy being used as a tool for addressing developmental challenges, (unemployment, output, inequality etc.) it has now become a vehicle for promoting market-based finance- the very finance that both policymakers and researchers agree as being the culprit for the 2007/8 crisis. But it is also the very finance that is so dangerous for poor nations like South Africa. So both fiscal and monetary policies in South Africa are designed to be at the service of finance, not the economy.

Aside from the fragilities associated with market-based finance, it makes little developmental sense for developing nations like South Africa to subject themselves to the vagaries of securitised marked-to-market debt instruments when cheaper, stable non-securitized, growth and development friendly alternatives exist. While the IMF/World Bank guidelines lean heavily on the use of securitized debt instruments with their "deepening the domestic bond (securities) markets" bait, the primary beneficiaries of such strategies cannot, and are not intended to be the 99% in poor nations.

The presence of transnational financial players through their subsidiaries or branches in South Africa has become part of the so called "domestic capital/securities market" with significant policy and political sway, helping tailor the policy, regulatory and institutional terrain towards their financial profit extraction motives: vampire squids? That they have become very influential and created a captured network of officials is an open secret. As a consequence credit creation, which should be directed towards productive sectors and structural transformation is instead channelled towards their rapacious yield hunting frenzy, more so that yields are evaporating fast in the Global North.

Supporting this resource extraction, willingly or unwillingly, are the authorities whose primitive understanding of money and banking make it an open sesame. SA is thus locked up in both dependent development as in dependent financialisation. The outcome, beyond financialisation and de-industrialisation, is that the economy cannot easily escape the vagaries of global financial cycles, just as it has now significantly curtailed its own power to influence its domestic financial policy space or conditions capable of supporting sustainable development, structural transformation and growth. Today, SA has no alternative development strategy aside from the dubious ones dictated by the private foreign financial institutions and their supporting multilateral international financial institutions.

The World Bank and the IMF, through the G20, their rather more legitimate carrier, including through their agenda of infrastructure as an asset class are now weaponising these debt instruments (finance) as the critical frontier to dig into their financial colonising streak. In this new agenda the State (SA) is being used to de-risk investment thus guaranteeing returns for the Global North investors and their local agents. Yet the same State cant de-risk SME's investment environment so as to create the needed jobs and growth. The UN's Sustainable Development Goals (SDGs) have not been spared either, being used as Trojan horses for the discredited public-private partnerships and privatisations. Blended finance, another smokescreen, has been accepted without question in SA. These two institutions are frantically pushing fragile finance in the name of development and South Africa, along with many developing nations, have been sleepwalking, like before, into an economic and financial trap. The unquestioning enablement of such agendas by SA's fiscal and monetary authorities speaks volumes. Instead of receiving such agendas with a deep sense of foreboding, they are eagerly promoting them..

Africa does not need foreign capital (savings)

South Africa, as all of Africa, does not need any foreign capital (savings) or even local savings for its developmental (investment) or infrastructural development agenda nor does it need the World Bank and IMF's development agendas being pushed through the G20, the Bank of International Settlements (BIS) (shadow banking's private capital for public goods). Befuddled by the loanable funds doctrine, monetary and fiscal authorities and the local economists remain in a state of economic muddlement as to how to finance infrastructure, reduce debt, structurally transform South Africa and climb the rungs of economic and social development (see Nkosi RL, forthcoming).

What is critically needed, if these authorities knew, is a network of public banks, preferably not-for-profit public banks, as in the case of China, Germany etc. guiding credit to the productive sectors of the economy, for innovation, structural transformation, economic transformation and green economy. Banks do not run out of money, as they create purchasing power as they lend. Creating such money however, in the direction that does not imperil the nation is what is important, hence guiding them, for their profit motive blinds banks from acting in their collective long-term interests but also in the national interest: strategic, macroeconomic stability, social and transformational. Such national interests however are of little interest to the international financial institutions that South Africa relies upon for advice and policy. The agenda pushed by the G20 is not only incompatible with the ideals of the Reconstruction and Development Programme (RDP) that are valid today as they were then, but is also at permanent tension with the developmental priorities of today's government.

In the meanwhile, South Africa is very busy, energetically but blindly searching for economic growth; employment creation, inequality and poverty reduction with and using the help of the very institutions' pitifully failed doctrines, policy frameworks and institutional designs, yet empirically grounded alternatives exist.

Unless South Africa's fiscal and monetary authorities discard their clearly failed approach, the spell of hope cast by President Mandela 25 years ago will remain an indefinitely deferred hope.

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