Article

Transition in decision-making in the South African Reserve Bank: an area of interest to Vishnu Padayachee (1952-2021)

Jannie Rossouw and Vishnu Padayachee
Jannie.Rossouw@wits.ac.za

Abstract

The SA Reserve Bank (SARB) was established in terms of the Currency and Banking Act of 1920 and opened its doors for business for the first time on June 30, 1921. The SARB had limited committee decision-making and a high degree of individual responsibility for many years after its establishment. This approach started changing in the 1980s. Currently the SARB is characterised by extensive management-by-committee. This includes monetary policy decisions; in this instance a change for the better. The current monetary policy decision-making structure results not only in improved transparency, but also a better understanding of the role of monetary policy and the impact of monetary policy decisions. The improved monetary policy decision-making structure was ushered in at the time of the adoption of inflation targeting as a monetary policy framework for South Africa and successfully focuses attention on this mandate of the SARB.

This paper is a precursor to more research on the neglected topic of the institutional structures of central banks. There is an extensive body of research literature on the implementation of monetary policy and the link to inflation and general economic conditions, covering and comparing many countries. To the contrary, very little research has been published on the institutional structures of central banks. This paper is a first step in a journey to fill this void in the research literature.

Introduction

The SA Reserve Bank (SARB) was established in terms of the Currency and Banking Act of 1920 (Union of South Africa 1920) and opened its doors for business for the first time on June 30, 1921 (SA Reserve Bank 1971). The establishment of the SARB followed turmoil in the gold market after the Great War (1914 to 1918, later known as WW1) (SA Reserve Bank 1971).

Various authors over the past century covered the conditions leading to the establishment of the SA Reserve Bank from different perspectives. From a heterodox/pluralist perspective, some of the important researchers who covered this topic in the recent past are Gelb (1989), Padayachee (2001), Bond (2013) and van Niekerk and Padayachee (2019).

One aspect remained topical since the establishment of the SARB: the degree of independence and autonomy from government interference in its decision-making and policy implementation (Rossouw and Padayachee 2021). Researchers differ on this matter, with views ranging from support for complete and full autonomy and independence, to a view preferring close cooperation between the central bank and the National Treasury. The latter viewpoint reminds one of the use of the terminology 'monetary authorities' by the De Kock Commission (Republic of South Africa 1985).

The De Kock Commission used this terminology to describe the close cooperation of the central bank and the National Treasury on matters of monetary policy. This position was abandoned in the 1990s, with Padayachee (2001:753) making reference to the fact that the SARB had no real autonomy before 1989, as it '… was largely subservient to political agendas …' (Padayachee 2000:500). Subsequently, the autonomy and independence of the SARB were included in the South African Constitution (*Constitution of the Republic of South Africa* 1996).

Matters pertaining to the regulatory framework of the SARB, the degree of its autonomy and independence, implementation of monetary policy, as well as the historical development of the SARB have always been of great interest to the co-authors of this paper. We have written extensively on these topics over many years, despite our occasional disagreement on certain finer points of detail in the execution and implementation of some policy decisions. Padayachee himself stated in this context that '(t)he key issue is … to establish institutional mechanisms by which … (central banks) … can be held more accountable for their actions and their decisions be made to reflect the interests of the broader society' (2001:750).

The authors commenced work on this paper early in 2021, but Padayachee sadly passed away on May 29, 2021. This leaves for publication a paper on which the authors still wanted to do more work, but nevertheless provides some new insights into the transformation of decision-making at the SARB. The plan was for this paper to be a first step towards a much broader research project, perhaps culminating in a book.

The authors met in 1996 at the time of Padayachee's appointment to the

Board of the SARB as a non-executive director. In true SARB tradition, the most-junior non-executive director started at the bottom of the Board table, next to the Secretary of the Bank at that time, the co-author of this paper. In his years of service as non-executive director, Padayachee progressed from the bottom to the top of the table, next to the deputy governors, as he became the most senior non-executive director of the SARB. In this period of service at the SARB, he developed a deep interest in the institutional structure and history of the central bank.

Padayachee also had many other interests, ranging from cricket and soccer, to collecting books and completing crossword puzzles. The interest in matters pertaining to the SARB is one the co-authors shared, and therefore became the main focus of several joint research projects.

The authors became friends in the period Padayachee served on the Board of the SARB and the first fruit of this friendship was his supervision of the co-author's PhD. This friendship also became a very fruitful one for the co-authors as research associates. The co-authors published numerous joint research outputs in academic journals and as book chapters, given the shared interest in the SARB and the history of monetary policy. This includes published research on the credibility of inflation figures in South Africa, and several papers covering historical perspectives on the SARB and the history of monetary policy. It is not well-known that the co-authors once published a joint paper in Afrikaans (Padayachee and Rossouw 2010). This accomplishment gave Padayachee great pleasure, as it followed his earlier publications in French and Czech, in addition to numerous publications in English.

Much has been said and written about Padayachee since his passing. Examples are an article by McCain (2021), a tribute by Valodia (2021), another tribute by Dawood (2021), and an obituary by Bordiss and Rossouw (2021). One central theme from the tributes is Padayachee's ability to work jointly with researchers from different ideological backgrounds over the whole spectrum of economic thought on research projects. This is described by Valodia (2021) as:

> … an extraordinary ability to engage across ideological boundaries. Though firmly in the left post-Keynesian economic camp, he was able to supervise students more firmly to his right on the political spectrum, and engage with academic disciplines from accountancy to politics. He never imposed his views but was always clear on where he stood on important matters of ideology.

Another example is a media release issued by the ANC government at the time of Padayachee's passing. The ANC said in a statement that ' … Padayachee dedicated most of his intellectual life to the struggle for social justice and the reconstruction and development of South Africa.' The statement adds that ' … Padayachee was a leading member of the Macroeconomic Research Group, (MERG) which provided support to the mass democratic movement in the period towards the democratic transition' (ANC 2021). Padayachee's own response to the statement would have been interesting, given his despondency about the ANC government in recent years and his subsequent withdrawal from ANC political structures.

The ANC statement aims at giving some dignity to the work of MERG. However, the course of history and Padayachee's own views on the ANC's lack of engagement with the MERG report tell another story. These views were, among others, highlighted in a recent paper in this journal (Padayachee and Rossouw 2021), which reassesses factors contributing to the ANC's abandoning of the MERG proposals in favour of a neo-classical approach to monetary policy and central banking. This aspect is also discussed in Bordiss and Rossouw (nd).

More tributes will follow, for instance a paper by Bordiss and Rossouw (nd). In addition, this joint (albeit posthumously for Padayachee) paper also has elements of a tribute to Padayachee, and highlights aspects to which he dedicated much of his time. As he was never a person that left anything unfinished, publishing this paper in the format to where we had progressed at the time of his untimely death, is a small tribute to a remarkable economist.

The provisions of Section 33 of the SARB Act (Republic of South Africa 1989a) are a particular limitation to research about the internal structure and activities of the SARB. This Section of the Act deals with secrecy pertaining to the SARB, and states (Republic of South Africa, 1989a):

> ***Preservation of secrecy***:
>
> 33. (1) No director, officer or employee of the Bank, and no officer in the Department of Finance, shall disclose to any person, except to the Minister or the Director-General: Finance[2] or for the purpose of the performance of his duties or the exercise of his functions or when required to do so before a court of law or under any law, any information relating to the affairs of the Bank or a shareholder or customer of the Bank acquired in the performance of his duties or the exercise of his functions, or any other information acquired by him in the course of his participation in the activities of the Bank.

> (2) No person shall disclose to any other person any information contained in any written communication which is in any manner marked as confidential or secret and which has been addressed by the Bank to any person or which has been addressed by any person to the Bank, except –
>
> (a) for the purposes of the performance of his duties or the exercise of his powers in terms of any law or when required to do so before a court of law; or
>
> (b) with the written consent of both the sender and the recipient of that communication.

This Section of the SA Reserve Bank Act really limits the ability of researchers to consider various aspects of the SARB's activities and institutional structure. The total limitation prescribed in terms of this Section of the Act is not conducive to research and raises the question whether a maximum period of secrecy, for instance 30 years, would be preferable to the current legal provision, ie, indefinite secrecy.

The rest of this paper is structured as follows: Section 2 deals with the establishment and functions of the SARB. Section 3 deals with decision-making committee structures in the SARB. Section 4 deals with monetary policy decisions and matters related to such decisions. Section 5 concludes.

Establishment and functions of the SARB

Before the establishment of the SARB, commercial banks in South Africa issued banknotes in terms of a Gold Standard, ie, banknotes in circulation were backed by the physical gold holdings of issuing banks and these notes could be exchanged for gold bullion or gold coin at banks of issue. Owing to monetary instability after the Great War, this position became untenable (De Kock 1954:11). Steps taken by the government of the Union of South Africa to stabilise the issuance of banknotes culminated in the establishment of the SARB (SA Reserve Bank 1971).

The first Governor of the SARB, W H Clegg, was appointed from the Bank of England, where he served as Chief Accountant. Clegg's appointment came about after the Prime Minister of the Union of South Africa at that time, General Jan Smuts, contacted the British economist, John Maynard Keynes, about the appointment of a first governor. Smuts and Keynes met one another at the Peace of Versailles in 1919. Central banking was at the time somewhat of a foreign concept in South Africa, with no people skilled in the matter (SA Reserve Bank 1971), thus necessitating an appointment from outside South Africa. As is shown in considerable detail by Parsons (1983), Keynes was instrumental in the selection and appointment of Clegg to the SARB as the first Governor.

De Kock (1956) explains that central banks were initially established as *banks of issue*, ie, institutions with responsibility for centralising the issuance of banknotes in terms of monopoly powers afforded by their respective governments. According to De Kock (1976:20,21; see also Dunbar 1917:79), central banks were granted the monopoly for issuing banknotes to make it possible for governments to:

- achieve uniformity in the issuance of banknotes;
- obtain proper supervision over a credit instrument that has been declared legal tender by law;
- exercise control over credit expansion; and
- share directly in the profitability of banknote issuance though seigniorage, rather than indirectly by taxing the profits of commercial banks that otherwise issued the notes and earned seigniorage.

Banknote issuance comes at a large cost for central banks, for instance the cost of design, printing, issuing to commercial banks and withdrawal and destruction once unfit for circulation. Nevertheless, banknotes in circulation are an important source of income for central banks. Banknotes in circulation is a liability on the balance sheet of central banks against which the central bank holds assets such as foreign exchange reserves and government securities that earn income. The income earned from the assets held against cash in circulation above the cost of production, issuance and withdrawal, is known as seigniorage, which is also explained below.

The functions of central banks evolved and expanded over time, which can encompass some or all of the following (see for instance Bain and Howells 2003, Wetterberg 2009):

- Issuance of currency (banknotes and coin)
- Formulation of monetary policy
- Implementation of monetary policy
- Bank regulation and supervision
- Administration of exchange control
- Banker of the government
- Economic analysis

- Management of gold and foreign exchange reserves
- Provision of liquidity to the banking system
- Lender-of-last-resort (emergency liquidity) assistance to banks in distress.

Other than performing some or all these functions, central banks must also structure their own internal institutional operations. This is a matter that receives scant attention in any literature on central banking.

The focus of this paper is on the transformation of decision-making in the SARB in performing its central banking functions and its internal institutional management, with specific reference to the formulation of monetary policy. The formulation of monetary policy by the SARB is one of its more visible functions. All functions of central banks are important for smooth operations in an economy, but certain functions such as the issuance of currency and the formulation of monetary policy through interest rate adjustments are particularly visible to the general public.

Both the currency issuance function and the formulation of monetary policy place a considerable responsibility for communication on central banks, including the SARB. In the case of banknotes, it is necessary to ensure public vigilance about the security features of banknotes, thus limiting opportunities for counterfeiters to launch forged banknotes into circulation. In the case of the formulation of monetary policy, it is necessary to inform the public of factors influencing interest rate decisions, particularly in a framework of inflation targeting. Although central banks engage in continuous attempts to improve communication with all their stakeholders (see Blinder et al nd; Rossouw 2008; Rossouw and Powers 2005), these institutions are often seen as somewhat aloof, operating at a distance from the society and the stakeholders they serve. This aloofness is, among others, informed by the basis, processes and systems of monetary policy decision-making, a matter that receives scant attention in the literature. To the contrary, the impact of monetary policy decisions receives wide coverage in the literature.

Linked to this void is the lack of literature on the internal structuring and functioning of central banks. Their impact on the economy generally and inflation specifically receive extensive attention and is often compared in respect of different monetary policy models. The lack of comparative literature on internal institutional organisation remains an interesting void and this paper is envisaged as the first step on a journey with this research.

Decision-making committee structures in the SARB

The Currency and Banking Act of 1920 (Union of South Africa 1920) was decidedly silent on the internal structuring of the SARB other than to provide for the establishment of the Board of Directors of the SARB, although certain aspects dealing with the rights of shareholders (initially called stockholders) were covered in the regulations framed in terms of Section 29 of the Act. The Currency and Banking Act and the regulations also provided for an Ordinary General Meeting of stockholders (an annual general meeting) of the SARB (Union of South Africa 1920). The Currency and Banking Act made reference to stockholders of the SARB, rather than shareholders. The term 'stockholders' was replaced by the term 'shareholders' of the SARB by the SA Reserve Bank Amendment Act of 1989 (Republic of South Africa 1989b). The formal decision-making structure adopted in 1920, was retained in the SARB acts of 1944 and 1989 (Union of South Africa 1944; Republic of South Africa 1989a).

The SARB had one formal decision-making body, namely the Board of Directors, for many years, while Ordinary General Meetings for stockholders/shareholders are convened annually. One Extraordinary (Special) General Meeting was called (in 2002) to deal with the delisting of SARB shares from the Johannesburg Stock Exchange (SA Reserve Bank 2002). The first reference to an expansion of the committee structure in the SARB at Board level is made in the report of the Ordinary General Meeting of 1993 (SA Reserve Bank 1993). Mention is made of the membership of the Audit Committee (later renamed as Audit and Risk Committee, but subsequently renamed as Audit Committee again) of the SARB.

The Remuneration Committee of the SARB commenced as an informal structure and evolved into a Board Committee. First mention of the formal existence of the Remuneration Committee is made in the report of the Ordinary General Meeting of 1998 (SA Reserve Bank 1998). However, this Committee, albeit as an informal structure, has a longer history. From 1944 to 1989, the responsibility for setting the salaries of the Governor and deputy governor(s) (one Deputy Governor until 1960) was entrusted to the Minister of Finance. In a period of low inflation, this is not a limitation or challenge, but this situation changed under conditions of sustained high inflation. Between 1921 and 1963, the salary of the Governor was adjusted only once, from £5,000 pa to £6,000 pa in 1945 (SA Reserve Bank 2011) (in both instances excluding the value of any fringe benefits). Adjusted for inflation, a salary of £5,000 pa was equal to £4,166 pa in real terms by

1945. Stated differently, adjusted for inflation over the ensuing period, a salary of £6,000 pa in 1945 was equal to the purchasing power of a salary of £5,000 pa in 1921.

The salary of the Governor remained at the level of £6,000 pa until 1961, when it was converted for decimalisation to R12,000 pa (SA Reserve Bank 2011). Adjusted for inflation over the ensuing period, the value of the salary in 1961 is equal to a current value of about R1,2 million pa. After 1945, the first salary adjustment for the Governor was in 1963, when the salary was adjusted to R15,000 pa (SA Reserve Bank 2011) (again excluding the value of fringe benefits). Had the salary kept pace with inflation over the period 1945 to 1963, it would have amounted to R21,300 pa, rather than R15,000 pa. This leaves an impression of the Governor suffering under the cost of inflation.

With subsequent sustained inflation, it was necessary to get annual approval from the Minister of Finance for adjustments in the remuneration of the Governor and deputy governors. For this purpose, a subcommittee of Board members was appointed annually to consult with the Minister. After the responsibility for setting the remuneration of the Governor and deputy governors reverted to the Board of the SARB in 1989 (as was the case before 1944), this subcommittee evolved into a formal Remuneration Committee of the Board.

The Board structure and its functions as encompassed in the Currency and Banking Act were retained in successive acts dealing with the SARB until 2010, although Board membership was expanded from time to time. In terms of the legislation of 1920, 1944 and 1989, the management of the SARB was entrusted to the Board, but the Board could delegate powers and functions to the Governor, the Deputy Governor (until 1960, thereafter the deputy governors) or any other official of the SARB. In 2010, the SARB Amendment Act demarcated the functions of the Board of the SARB (Republic of South Africa 2010), with the remainder of the functions entrusted to the management of the central bank.

The most senior internal executive committee of the SARB is the Governors' Executive Committee. This Committee started as an informal meeting of the Governor and deputy governors after the appointment of GPC de Kock as Governor of the SARB. Before these (initially) informal meetings were called, the Governor and deputy governors of the SARB made decisions in their respective areas of responsibility, with considerable power delegated to the Chief Cashier of the SARB. The title of the Chief

Cashier changed to General Manager with the appointment of HO de Villiers to the position (de Villiers nd), with a large number of heads of department and the branch structure of the SARB reporting into this position. By the time De Kock became Governor in 1981, this position had effectively been abolished, with heads of department reporting to the deputy governors.

The informal meeting of the Governor and deputy governors evolved into a formalised Governors' Committee, with agenda and minutes, by the middle of the 1980s. The name was changed in 2000 to the Governors' Executive Committee and membership was expanded to include selected members of the general management of the SARB, beyond the Governor and deputy governors.

Owing to the abolition of the position of one single General Manager (previously Chief Cashier) and heads of department reporting to the deputy governors, it was necessary to establish a General Managers' Committee, chaired by a Deputy Governor, to ensure departmental cooperation. This Committee evolved over time into the Management Committee.

Another formal structure with a long history in the SARB, is the annual conference of Branch Managers.[3] The aim of this conference is coordination between branch activities. Such coordination was of particular importance while branches still had accounting functions, but the focus of the conference changed once the functions of the branches were limited to banknote issuance, withdrawal, sorting and destruction.

The SARB currently has a large number of Board committees and other internal decision-making committees. This proliferation of committees is a clear indication that personal decision-making responsibility was replaced by decision-in-committee. The 2020 *Annual Report* of the SARB lists the following decision-making structures and committees (SA Reserve Bank 2020):

Board-level deliberation and decision-making:
Board
Audit Committee
Risk and Ethics Committee
Non-Executive Directors' Committee
Remuneration Committee

Internal SARB deliberation and decision-making:
Monetary Policy Committee
Financial Stability Committee
Governors' Executive Committee

Subcommittees of the Governors' Executive Committee:
Information and Technology Steering Committee
Procurement Committee
Reserves Management Committee
Risk Management Committee
Management Committee

Given the void in the literature on the internal structures of central banks, it cannot be determined through any comparison whether this proliferation of committees enhances or impedes optimal functioning in the SARB. However, it is clear that individual responsibility for decision-making has been replaced by decision-in-committee. This is an aspect that the co-authors planned to cover in further research.

Other than its responsibility for containing inflation in terms of its inflation-targeting policy framework, the SARB is also responsible for financial stability. The SARB states that '… the Bank's role and mandate in overseeing and maintaining financial stability was reaffirmed by government in a letter from the Minister of Finance addressed to the Governor dated 16 February 2010' (SA Reserve Bank 2014:i). In this regard Padayachee (2014) states that '(p)rior to 2008 most central banks, including the SARB, had an implicit financial stability mandate, and the view was that price stability would ensue financial stability.' After the letter of 2008, financial stability became an explicit mandate of the SARB. Responsibility for deliberation and decisions on financial stability is entrusted to the Financial Stability Committee, but the activities of this Committee do not get the same attention as the Monetary Policy Committee. This is a matter for further research.

Another noticeable feature from a review of the *Annual Reports* of the SARB over a number of consecutive years, is the introduction of the terminology 'the SARB Group', although the legislation pertaining to the SARB does not provide for such terminology. The SARB Group comprise the SARB itself, the SA Mint Company (Pty) Ltd (SA Mint) and SA Banknote Company (Pty) Limited (SABN). The SA Mint and the SABN are full subsidiaries of the SARB, and the use of 'the SARB Group' in financial reporting is therefore the result of accounting standards and requirements. The 'group structure' of the SARB is supported by certain group service functions, for instance a Group Secretariat for all three entities. Comparative research on possible group structures at other central banks is also a void in the literature.

The Monetary Policy Committee (MPC) has responsibility for the formulation of monetary policy. As the MPC was established only in 1999 (SA Reserve Bank 1999), the next section considers the process of monetary policy decision-making in the SARB.

Monetary policy decisions and related matters

The matter of monetary policy aimed at containing price increases has a long history. David Hume (1711-1776) focused on the preservation of a steady value for money as a prerequisite for an economy in equilibrium (Hume 1752). Over time this matter developed into containing inflation, rather than a simple focus on the value of money. According to Bryan (1997:2), the use of the word "inflation" originates from the period between the mid-1830s and the Civil War in the United States, but still in reference to something that happens to paper currency (ie, devaluation of the value of paper currency), rather than in reference to prices and the price level. However, ' … by the late nineteenth century … the distinction between currency and money was becoming blurred' (Bryan 1997:2). Subsequently inflation became the terminology used to describe a persistent increase in the general price level in the economy.

The co-authors of this paper in conjunction with a third author recently published a paper on South Africa's gold crisis in the period between its abolition in the UK (September 1931) and the suspension by South Africa some 15 months later in December 1932 (Bordiss et al 2021). As South Africa had full currency convertibility (into gold) until December 1932, the country suffered deflation after the abolition of the gold standard in the UK. Bordiss et al (2021) show that maintenance of the gold standard in South Africa, independent from the UK, was a serious policy error that exacerbated the impact of the Great Depression on the domestic economy.

This period gives an impression of the South African government, rather than the SARB, taking monetary policy decisions, as the South African government decided that South Africa would not follow the UK in the abolition of the gold standard (SA Reserve Bank 1971). The fact that the SARB, in order to ameliorate its own risks, expected an early prior warning about the abolition of the gold standard by the UK from the Bank of England, but never received such a warning, is explained in detail in the PhD thesis of Dr Bradley Bordiss, who was supervised by Padayachee (Bordiss 2021). This lack of prior early warning resulted in major financial losses for the SARB, as it held British pound sterling assets against South

African pound liabilities. The depreciation in the value of the sterling after the UK abolished the gold standard, practically wiped out the reserve holdings of the SARB (Bordiss 2021, SA Reserve Bank 1971).

It also seems that the South African government, rather than the SARB, took the initial decision for South Africa to reintroduce the gold standard. The South African government decided to appointed Prof EW Kemmerer and Dr G Vissering in 1924 to provide advice on the reintroduction of the gold standard independently from the UK (SA Reserve Bank 1971). Reflecting on the reintroduction of the gold standard nearly a century later, it is clear that this was an inappropriate policy approach introduced by the South African government (SA Reserve Bank 1971) for the wrong reasons (Bordiss 2021). In both the reintroduction of the gold standard and in the decision not to abolish it in 1931, the will of the South African government prevailed in monetary policy, rather than the views of the SARB (Bordiss 2021; SA Reserve Bank 1971). De Kock (1954) described 1931 and 1932 as two of the most difficult years in the history of the SARB.

The Currency and Banking Act of 1920 (Union of South Africa 1920) and the SA Reserve Bank Act of 1944 (Union of South Africa 1944) provided only for a Governor and a Deputy Governor at the SARB, with the role of the Governor as *primus inter pares*, rather than as a Chief Executive Officer. This is confirmed by the writings of Dr EHD Arndt, Deputy Governor of the SARB from 1951 to 1961. He states of the Governor of that time, Dr MH de Kock, that 'I have known Mike de Kock intimately since 1922 … he looked upon himself merely as *primus inter pares* – the first among equals' (quoted by Botha nd:34) at the SARB.

Arndt also provides some insight into monetary policy decision-making during his tenure as Deputy Governor of the SARB. He states that De Kock, the Governor, '… is not afraid of other opinions but welcomes comment and suggestions, always reserving the ultimate decision to himself' (quoted in Botha nd:34). This leaves an impression of the Governor taking sole responsibility for monetary policy decisions, at least between 1951 and 1961.

It seems that the decade of the 1940s and early 1950s required very little focus on monetary policy decisions. In October 1949, the SARB changed the level of interest rates for the first time since 1941 (SA Reserve Bank 1971). This was followed by a further change in interest rates in March 1952, and again a change in September 1955 (SA Reserve Bank 1971). It is remarkable that SARB changed interest rates only twice in the period of nearly 14 years between 1941 and 1955. Indeed, monetary policy decisions were few and far between in this period. With monetary policy requiring little attention, it is appropriate to ponder about matters that occupied the minds of the Governor, the Deputy Governor and central bank officials in that period of 14 years. Although Arndt stated that the Governor took sole responsibility for monetary policy decisions between 1951 and 1961, this happened very infrequently in any case.

The SARB adopted credit ceilings and credit control in the 1960s (retained until 1980) in a framework of fixed exchange rates within the Bretton Woods system. Retaining the fixed exchange rate of the rand in this period put pressure on the foreign reserve holdings of the SARB. It transpires from the autobiography of a previous Deputy Governor (HO de Villiers) that considerable attention in monetary policy was focused in this period on foreign borrowing by the SARB to maintain adequate levels of foreign reserves (De Villiers nd).

It is as obvious from the autobiography of a previous Senior Deputy Governor of the SARB (Professor JA Lombard) that monetary policy in the latter part of the 1980s was influenced by the quest for financial stability within the context of the moratorium on the repayment of South Africa's private sector foreign debt (Lombard nd), commonly known as the (Foreign) Debt Standstill. However, the 1980s is unfortunately also characterised by the slipping autonomy of the SARB, that was only restored in the 1990s (Padayachee and Rossouw 2021). In the 1980s, PW Botha, the President of South Africa, and the South African Cabinet interfered with monetary policy decisions (see Padayachee and Rossouw 2021, Rossouw 2018). The current autonomy of the central bank in monetary policy decision-making, was transformation for the better.

Monetary policy decisions at the central bank are currently entrusted to the Monetary Policy Committee (MPC). At the moment, the MPC comprises the Governor, deputy governors and one senior official of the SARB, appointed by the Governor. However, the composition of the MPC has changed from time-to-time since its inception (see SA Reserve Bank 1999). The Board of the SARB has no role to play in the MPC's deliberations or decisions.

The important positive aspects of the establishment of the MPC, the publication of its meeting dates in advance and a media briefing after MPC deliberations, are that the public understands:

(i) where monetary policy decisions are taken;

(ii) by whom monetary policy decisions are taken;
(iii) when such decisions are taken; and
(iv) why such decisions are taken.

This removed one of the most serious earlier objections to the previous conduct of monetary policy: a perceived lack of transparency in the decision-making process and the timing of such decisions.

An aspect that receives scant attention in the context of the monetary policy decisions of the SARB, is the Common Monetary Area (CMA), with South Africa, Eswatini, Lesotho and Namibia as the partner countries. In terms of the CMA agreement, all four member countries have their own central banks, issue their own currency and are responsible for monetary policy in their respective countries. However, the currencies of Eswatini, Lesotho and Namibia are pegged at one-to-one exchange rates with the South African rand, and therefore also to one-another. In practice, this implies that the SARB formulates monetary policy for all the CMA countries. It also implies conversion of the inflation rates of Eswatini, Lesotho and Namibia with the South African inflation target range.

In terms of the CMA agreement, the South African rand circulates freely as legal tender in Eswatini, Lesotho and Namibia. One condition for this free circulation is that South Africa shares with the other CMA countries the seigniorage earned in respect of rand currency in circulation within their respective borders. It is noteworthy that South Africa does not share any seigniorage with other countries where the rand circulates, albeit without any formal agreement, for instance Zimbabwe.

The power relationship in the CMA is skewed in favour of South Africa, but the seigniorage sharing agreement is skewed in favour of Eswatini, Lesotho and Namibia. It therefore raises the question whether more countries can be allowed at any time to join the CMA agreement, given the possibility of the sharing agreement becoming unaffordable to South Africa. The SARB does not publish its seigniorage revenue as a separate line item. This is a matter for future research, as such publication will put the actual amount paid annually to the partner countries in context.

Another aspect of the seigniorage sharing agreement is its actual payment. It is payable on revenue earned by the SARB, but paid by the South African government. The SARB pays income tax at the company tax rate to the government, by means of payment to the SA Revenue Service, the tax collecting authority. The SARB's remaining revenue after taxation, payment of dividends to shareholders (R200,000 pa) and allocation to internal reserve accounts of the central bank, is paid over as a surplus by the central bank to the National Revenue Fund. Tax and surplus payments include seigniorage earned by the central bank. The South African government takes responsibility for the payment of shared seigniorage, through the National Treasury.

The CMA seigniorage sharing agreement stipulates that the compensation payable to Eswatini, Lesotho and Namibia is based on an estimate of the volume rand in circulation in the member country concerned, multiplied by 2/3 of the annual yield on South African government bonds. It is difficult to assess whether the 'estimate' of rand in circulation in each CMA member country is accurate. The actual amounts paid are reported annually in the *Estimates of National Expenditure* as an expenditure item of the South African National Treasury (National Treasury 2021), jointly for all three countries; no breakdown per country is provided. For the 2021/22 fiscal year, the amount of R1,28 billion is budgeted as 'Common Monetary Area compensation' (seigniorage). Based on the seigniorage sharing agreement, the implication is an assumption that some 10 per cent of South African rand currency (banknotes and coin in circulation outside the central bank) circulates in Eswatini, Lesotho and Namibia. Given the relative sizes of the economies of the four CMA partner countries and issuance of own currency by those countries, this ratio of some 10 per cent seems unrealistic. The seigniorage sharing agreement thus seemingly includes an element of development aid paid to Eswatini, Lesotho and Namibia, although the size of this aid cannot be accurately estimated with information currently available in the public domain. This is an aspect that requires more research within the institutional structure of the SARB, given the void in the literature.

Eswatini, Lesotho and Namibia use the South African national payment system for the settlement of payments. This is possible because their currencies trade at par with the SA rand and other CMA currencies. Another common aspect is the fact that Eswatini, Lesotho and Namibia apply the same or stricter exchange control than South Africa. These four currencies can therefore be exchanged freely and without any requirements for prior exchange control approval (Maziva 2016).

Conclusion

This paper shows that decision-making in the SARB moved from individual responsibility to decision-by-committee over time. Some elements of this change are to be welcomed, but more research is necessary on the institutional structure of the SARB and other central banks before a general conclusion can be reached.

The decision-making structure in respect of monetary policy decisions and the introduction of the MPC with this policy responsibility, were improvements for the better within the institutional structure of the SARB. The MPC enhances transparency about monetary policy decisions and brings a better understanding of policy decisions and implementation, thus supporting the inflation-targeting policy.

Certain aspects of a cumbersome decision-by-committee structure can be questioned and require further research. The deliberations and decisions of the Financial Stability Committee, focused on the SARB's second mandate of financial stability, should specifically be covered more extensively in future research. In the same vein, more research on the SARB 'group structure' and 'group functions' is required, also in comparison with other central banks. Likewise, more research on the CMA and seigniorage sharing is necessary to enhance better understanding of South Africa's role and the role of the SARB in the CMA arrangement. It is also necessary to consider whether the SARB uses the CMA agreement optimally for its own purposes.

Section 33 of the SA Reserve Bank Act limits the ability of researchers to assess information and consider various aspects of the SARB's activities and institutional structure. The total limitation on sharing information is not conducive to research. It is therefore necessary to consider whether a maximum period of secrecy, for instance 30 years, would be preferable to the current legal provision, ie, an unlimited period of maintenance of secrecy. This is an aspect that frustrated the co-authors of this paper in its compilation, and on occasion of previous research projects.

This paper is a precursor to a deeper analysis of the internal structure and workings of the SARB. The co-authors often expressed in conversation the view that a detailed analysis of this nature is long overdue. In this analysis, the voice of Vishnu Padayachee will be missed.

Notes

1. The views expressed do not reflect the position of any University or the SA Reserve Bank either now or in the past.
2. Today the Director-General of the National Treasury.
3. Branch Managers of the SARB were initially known as the Governor's Agents and the annual conference was known as the Annual Conference of Agents of the SA Reserve Bank, with the first such meeting held in Pretoria in September 1954, chaired by the Chief Cashier.

References

ANC (2021) 'ANC mourns the passing of Professor Vishnu Padayachee, an outstanding scholar, a progressive academic and a long-standing activist of the mass democratic movement.' June 1. *https://www.anc1912.org.za/myanc-myanc-mourns-passing-professor-vishnu-padayachee-outstanding-scholar-progressive-academic-0* (Accessed on various dates)

Bain, K and P Howells (2003) *Monetary Economics: policy and its theoretical basis*. 3rd edition. Palgrave Macmillan: Hampshire and New York.

Blinder, A, C Goodhart, P Hildebrand, D Lipton, and C Wyplosh (nd) *How do Central Banks Talk?* Geneva: International Centre for Monetary and Banking Studies.

Bond, P (2013) 'Historical varieties of space, scale and speculation in South Africa: the uneven and combined geographical development of financialised capitalism', *Transformation* 82/83.

Bordiss, B (2021) 'Shaping monetary policy and development in South Africa: the role of Jack Holloway and Andries Bruwer', PhD thesis. University of the Witwatersrand, Johannesburg.

Bordiss, B and J Rossouw (2021) 'Obituary: Vishnu Padayachee (1952–2021)', *Economic History of Developing Regions* 36.

______ (nd) 'The virtues of Vishnu: reflecting on the monetary policy contributions of Professor Vishnu Padayachee', submitted for review to the *African Review of Economics and Finance*.

Bordiss, B, V Padayachee and J Rossouw (2021) 'Two of the most eventful years in the history of the South African Reserve Bank: William Henry Clegg and Johannes Postmus and the 1931-1932 crisis', *Economic History of Developing Regions* 36(2).

Botha, DJJ (nd) 'Down memory lane: past presidents 1925 to 1963', *Economic Society of South Africa*. *http://www.essa.org.za/memory_lane.pdf* (Accessed May 10, 2021).

Bryan, MF (1997) 'On the origin and evolution of the word inflation', *Economic Commentary*. Federal Reserve Bank of Cleveland. October 15.

Constitution of the Republic of South Africa (1996) *https://www.justice.gov.za/legislation/constitution/saconstitution-web-eng.pdf* (Accessed on various dates)

Dawood, Z (2021) 'Tributes pour in for esteemed economist Mahavishnu Padayachee', *IOL News* May 31. *https://www.iol.co.za/dailynews/news/kwazulu-natal/tributes-pour-in-for-esteemed-economist-mahavishnu-padayachee* (Accessed on various dates)

De Kock, G (1954) *A History of the South African Reserve Bank (1920–1952)*. Pretoria: JL van Schaik.

De Kock, MH (1956) *Central Banking*. 3rd edition. London: Staples Press Limited.

______ (1976) *Central Banking*. 4th edition. Norwich: Grenada Publishing.

De Villiers, HO (nd) *HO: Henry Oswald de Villiers*. Private publication.

Dunbar CF (1917) *The Theory and History of Banking*. 3rd edition. New York: Putnam.

Gelb, S (1989) 'The origins of the South African Reserve Bank, 1914–1920', in A Mabin (ed) *Organisation and Economic Change*. Johannesburg: Ravan Press.

Hume, D (1752) 'Of Money', *Essays*. London: George Routledge and Sons.

Lombard, JA (nd) *A Strange Intermezzo: memories of a political economist*. Private publication.

Maziva, R (2016) 'The rand currency monetary area: an option for de-dollarisation in Zimbabwe', MBA research project, University of Pretoria, Pretoria. *https://repository.up.ac.za/bitstream/handle/2263/59870/Maziva_Rand_2017.pdf* (Accessed on various dates)

McCain, N (2021) 'Renowned economist and academic, Mahavishnu Padayachee, dies', *News24*. June 1. *https://www.news24.com/news24/SouthAfrica/News/renowned-economist-and-academic-mahavishnu-padayachee-dies-20210601* (Accessed on various dates)

National Treasury (2021) *Budget 2021: Estimates of National Expenditure*. Pretoria: National Treasury.

Padayachee, V (2000) 'Independence in an era of globalisation: central banking in developing countries', *International Review of Applied Economics* 14(4).

______ (2001) 'Central bank transformation in a globalized world: the Reserve Bank in post-apartheid South Africa', *Journal of International Development*. *https://onlinelibrary.wiley.com/doi/pdf* (Accessed on various dates)

______ (2014) 'Central banking after the global financial crisis: the South African case', in H Bhorat, A Hirsch, R Kanbur and M Ncube (eds) *The Oxford Companion to South African Economics*. Cape Town: Oxford University Press.

Padayachee, V and J Rossouw (2010) 'Vergoedingsneigings in die openbare sektor te midde van volgehoue inflasie – 'n ekonomiese perspektief' [Remuneration trends in the public sector during sustained inflation – an economic perspective], *Tydskrif vir Geesteswetenskappe* (*Journal of Humanities*) 50(2).

______ (2021) 'The political economy of South Africa's constitutional road to Central Bank independence (1993-1996)', *Transformation* 105.

Parsons, RWK (1983) 'Keynes and South Africa', *SA Journal of Economics* 51(3).

Republic of South Africa (1985) *The Commission of Inquiry into the Monetary System and Monetary Policy of South Africa* (De Kock Commission). First interim report: RP 112/1978, Second interim report: RP 93/1982, and Final report: RP 70/1984. Pretoria.

______ (1989a) *SA Reserve Bank Act of 1989*. Act No 90 of 1989, as amended and the regulations framed in terms of Section 36 of the Act.

______ (1989b) *SA Reserve Bank Amendment Act of 1989*. Act No 49 of 1989.

______ (2010) *SA Reserve Bank Amendment Act of 2010*. Act No 4 of 2010.

Rossouw, J (2008) 'Inflation in South Africa: 1921 to 2006: history, measurement and credibility', PhD Thesis. University of KwaZulu-Natal, Durban.

______ (2018) 'Politics and policies: determinants of South Africa's monetary policy problems in the 1980s', *Economic History of Developing Regions* 33.

Rossouw, J and C Powers (2005) 'Communication in support of an inflation targeting policy: a note on the South African Reserve Bank', *South African Reserve Bank Discussion Paper DP/05/12*. Pretoria: South African Reserve Bank.

Rossouw, J and V Padayachee (2021) 'The independence of the South African Reserve Bank: coming full circle in 25 years?', in M Yagci and M Oxon (eds). *The Political Economy of Central Banking in Emerging Economies*. New York: Routledge.

SA Reserve Bank (1971) *A Short Historical Review Issued in Commemoration of the Bank's Fiftieth Anniversary*. Pretoria: SA Reserve Bank.

______ (1993) *Minutes of the Ordinary General Meeting of Shareholders*. August 25.

______ (1998) *Minutes of the Ordinary General Meeting of Shareholders*. August 25.

______ (1999) *Statement Released by the SA Reserve Bank after the deliberations at the First Meeting of the Bank's Monetary Policy Committee*. October 13.

______ (2002) *Minutes of the Extraordinary General Meeting of Shareholders*. April 25.

______ (2011) *South African Reserve Bank: Commemorative Publication*. Pretoria: SA Reserve Bank.

______ (2014) *Financial Stability Review.* September. Pretoria: SA Reserve Bank.

______ (2020) *Annual Report*. Pretoria: SA Reserve Bank.

Union of South Africa (1920) *Currency and Banking Act*. Act No 31 of 1920, as amended and the regulations framed in terms of section 29 of the Act.

______ (1944) *SA Reserve Bank Act of 1944*. Act No 29 of 1944, as amended, and the regulations framed in terms of Section 23 of the Act.

Valodia, I (2021) 'A tribute to Vishnu Padayachee: South African economist and radical thinker', *The Conversation*. June 2. *https://theconversation.com/a-tribute-to-vishnu-padayachee-south-african-economist-and-radical-thinker-162015* (Accessed on various dates)

Van Niekerk, R and V Padayachee (2019) *Shadow of Liberation: contestation and compromise in the economic and social policy of the African National Congress, 1943–1996*. Johannesburg: Wits University Press.

Wetterberg, G (2009) *Money and Power: from Stockholms Banco 1656 to Sveriges Riksbank today*. Stockholm: Sveriges Riksbank.