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Standing Committee on Finance

Per: E-mail wicomb@parliament.gov.za/tsepanya@parliament.gov.za.

Dear Sir/Madam

OBJECTION TO THE SOUTH AFRICAN RESERVE BANK AMENDMENT BILL [B26 – 2018]

I refer to the advertisement inviting comment on the above issue.

I hereby wish to object to the above Bill in its entirety. Please find writer's comment on the Bill for your consideration.

Please note that the comment below is made in my personal capacity and is not intended to reflect the views of any other person, entity or body with which I am in any way associated.

My objections are essentially twofold in nature –

- The Bill will deter investment and, while some politicians appear to be vehemently opposed to new investment in South Africa, new investment is the only way that the country can create sustainable jobs needed to reduce the unemployment rate;
- The motivation for the Bill appears to be based on the false premise that taking over the Reserve Bank will allow Government to print money to spend everything it wants to spend without the negative consequences one gets from borrowing money or increasing taxes. As will be shown below, only the economically less-literate who have never lived through an era of high inflation and do not have the insight to see that this was tried and failed right next door in Zimbabwe will think that this is a good idea.

Investment

It is a fact that South Africa has a very high unemployment rate. It is equally a fact that all of the businesses in South Africa employ all the people they need and some have more people than they can afford to pay for, making them unsustainable. If is further a fact that

Government cannot just create jobs as jobs in Government have to be paid for out of private sector taxes.

The only way to create jobs is if existing businesses expand or new businesses are created. This requires new investments. Contrary to the belief of the economically illiterate, factories and mines don't build themselves. New investment is needed to build factories, create mines, buy capital equipment, pay wages etc. Again, contrary t what the economically illiterate believe, investors do not fall over themselves seeking to invest in a country if (a) their investment can be expropriated without reasonable compensation and if they cannot get a return sufficient to justify the investment. Prior to1978 China expropriated property without compensation, nobody invested in that country and 88% of people lived below the poverty line.[1/2] China only became successful when, under Deng Xiaoping, it moved from a socialist economy and accepted a market economy and guaranteed, by way of signing 145 bilateral investment treaties, that it would not expropriate investments without reasonable compensation.[3] It therefore became successful because it adopted the capitalist system, to such an extent that by 2015, only 0,7% of the population lived below the poverty line.[4]

By effectively cancelling the private shareholding in the bank, the perception most likely to be created in the minds of the investment community is that any investment in South Africa is not safe and that the bank will in future be run by economically less illiterate deployed cadres rather than professional bankers with the oversight of directors appointed by diverse shareholders. In short, it appears that the Bill seeks to impose on the Reserve Bank the same governance structure that allowed South Africa Airways, the SABC, Eskom and Denel to reach their present state. This is unlikely to inspire new investment, albeit it is my perception that new investment in South Africa is the last thing that the drafters of the Bill actually want.

Hyperinflation

It is my perception that the main motivation for the Bill is that the drafters appear to labour under the delusion that if Government can only get control of money supply it can increase

[1] "Overview". Worldbank.org. Retrieved December 28, 2017.
[2] Poverty headcount ratio at $1.90 a day (2011 PPP) (% of population) | Data". data.worldbank.org. Retrieved June 1, 2019.
[3] https://investmentpolicy.unctad.org/international-investment-agreements/countries/42/china
[4] "Overview". Worldbank.org. Retrieved December 28, 2017

the supply of money to meet all the social needs it wants, without any negative consequences.[5]

This approach has been tried before, many times. Examples are the Southern States during the American Civil War, the Weimar Republic in Germany[6], Britain in the 1970's and, most recently, the two countries that some appear to see as role models for South Africa to follow when applying economic policy, namely Zimbabwe[7] and Venezuela[8/9].

The results are always the same. Hyperinflation devalues savings and investments, effectively resulting in taxation by stealth. Persons on fixed incomes end up starving and pensioners, who had wisely built up pension funds for their retirement, are left destitute. As one article puts it

> *"Generally, hyperinflation is extremely damaging to a country's economy and especially the poor.*
>
> *....*
>
> *There is a wide variety of negative consequences pertaining to hyperinflation. The following are some of its detrimental effects:*
>
> - *Hyperinflation quickly devalues the local currency in forex markets, causing importers to quit as the costs of foreign goods increase rapidly.*
> - *It may jeopardise or even destroy a country's financial system and financial institutions. This scenario is possible due to the following reasons:*
> - *People stop making deposits.*
> - *Foreign investors perceive the afflicted country as a high-risk for investments.*
> - *Loans lend to borrowers to lose value.*
> - *Banks become unwilling to lend money.*
> - *The purchasing power of private and public savings are effectively wiped out.*
> - *Hyperinflation can change a country's economy to a barter economy, a cashless economy with significant consequences for business confidence.*
> - *People start to stockpile goods, from durable to perishable goods, leading to food supply shortages.*
> - *Unemployment increases because businesses close down, causing residents' financial situations to deteriorate, many suffering bankruptcies.*

[5] https://www.polity.org.za/article/eff-eff-statement-on-the-increase-of-the-repo-rate-by-the-sa-reserve-bank-2016-03-18

[6] https://www.businessinsider.com/weimar-germany-hyperinflation-explained-2013-9?IR=T#in-march-1921-france-occupied-german-ports-because-they-couldnt-make-reparations-payments-7

[7] https://www.economicshelp.org/blog/390/inflation/hyper-inflation-in-zimbabwe/

[8] https://www.aljazeera.com/economy/2020/10/5/venezuela-mulls-100000-bolivar-bill-guess-how-much-its-worth

[9] https://theconversation.com/what-caused-hyperinflation-in-venezuela-a-rare-blend-of-public-ineptitude-and-private-enterprise-102483

- *Tax revenues of the government decrease drastically, resulting in failing to provide basic services.*"[10].

Another article states:

> *"If the rapid creation of money is the cause of hyperinflation, the effect is a collapse of economic activity along with shortages of goods and hunger.*
>
> *Venezuela is a typical case, according to economist Philippe Waechter at asset manager Ostrum. The authorities have printed tonnes of money and economic output plunged 40 percent between 2015 and 2017.*
>
> *"You have plenty of cash, but nothing to buy, and as the money is plunging in value you can't import anything," he said.*
>
> *The rapid deterioration of the value of the currency means that people don't want to accept it.*
>
> *Hyperinflation quickly leads to goods disappearing from shops, with governments having to introduce rationing. Hunger spreads.*
>
> *"Venezuelans lost an average of 11 kilos (24 pounds) in 2017 compared to 2016," noted Waechter.*
>
> *Many people also try to flee the country."*[11]

Examples from the above countries include:

> *"In Venezuela, inflation is expected to hit 1,000,000 percent by the end of the year.*
>
> *In Zimbabwe, the government was forced to introduce a 100-trillion-dollar note -- though it could barely buy a loaf of bread.*
>
> *However the worst hyperinflation was in Hungary in 1946 when prices doubled every 15 hours, according to the Cato Institute."*

In socialist Britain in the 1970's, the socialist Government believed that it could address the economic situation by increasing money supply. The result was a disaster. As later Prime Minister Thatcher put it:

> *"If simply printing and spending more money would cure our problems we should by now be one of the wealthiest nations in the Western world.—In the lifetime of the last Labour Government the amount of money in the economy went up by £20 thousand million but the number of jobs did not increase. Indeed, unemployment doubled and prices more than doubled too.—In the last three years (1976–79) the amount of money in the economy went up by 50%; but yet only 4%; went into output, the rest into higher prices and imports. The record is clear, printing money doesn't create jobs, it only creates more inflation. But there is another word for printing money—they call it "reflection". It is a cosy word but a fraudulent device. It*

[10] https://www.sashares.co.za/hyperinflation/#gs.lk3mfq
[11] https://www.newvision.co.ug/news/1484104/hyperinflation-spiralling-prices-poverty

cuts the value of every pound in circulation, of every pound the thrifty have saved. It means spending money you can't afford, haven't earned and haven't got. You would accept that it is neither moral nor responsible for a family to live beyond its means. Equally it is neither moral nor responsible for a Government to spend beyond the nation's means, even for services which may be desirable. So we must curb public spending to amounts that can be financed by taxation at tolerable levels and borrowing at reasonable rates of interest."[12]

She also noted

> *"For years there was a widespread belief that we could have inflation and a high level of employment at the same time. For years there was a belief that we could secure more jobs if we were prepared to put up with a little more inflation—always a little more, it was thought. The experience of the past 25 years has taught us on the Government Benches that those beliefs were a most damaging illusion. Inflation and unemployment, instead of moving in opposite directions, rose inexorably together. As Governments tried to stimulate employment by pumping money into the economy they caused inflation. The inflation led to higher costs. The higher costs meant loss of ability to compete. The few jobs that we had gained were soon lost; and so were a lot more with them. And then, from a higher level of unemployment and inflation, the process was started all over again, and each time round both inflation and unemployment rose. In Parliament after Parliament, each new Government had a higher average rate of inflation and unemployment than the preceding Government."*[13]

Balance

The present governance structure of the Reserve Bank creates a balance between the need to create certainty and Government control and as the quote attributed to Bert Lance states: *"If it ain't broke, don't fix it."*

Conclusion.

I accordingly recommend that it is in the best interests of the country that the Bill be rejected in its entirety.

Yours faithfully

Keith Harvey

[12] Speech to Conservative Trade Unionists (Annual Conference) (1 November 1980)
[13] Speech in the House of Commons (5 February 1981)