# Symposium Introduction: What Makes the Central Bank So Central?

**By:**

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May 24, 2020

It is the segment of the news bulletin that many viewers skip, the section of the newspaper that many readers skim, the panel of the law conference during which many listeners in the audience yarn. And yet few things affect our ability to eke out a living as drastically as central banking.

For countless people, the central bank is the institution that mints coins and that prints banknotes. As section 10(1)(a) of South Africa's Reserve Bank Act puts it, the law empowers the central bank to "issue coins or cause coins to be coined". At best, the majority of people assume that this money-printing mammoth is the most important bank, the most central of banks.

But this assumption merely scratches the surface of the part that the central bank actually plays in the economy, society, and our own lives. "Just how central is the central bank?" you may then ask. Central enough to impel the

South African President and the South African intelligence services to get involved in backdoor efforts to amend the Constitution and change the mandate of the central bank. Such efforts, however ill-advised, should not surprise anyone who deeply understands central banking as they translate the pivotal role that the central bank performs in growing the economy and in enabling it to create jobs.

Take the case of inflation. By increasing or decreasing interest rates, a central bank may prevent runaway inflation or cause hyperinflation, leading the entire economy to collapse and entrapping whole communities into grinding poverty. This happened in Germany after World War I and in Zaïre (the present-day Democratic Republic of the Congo) in the 1990s when hyperinflation fueled unrest in those countries and tore apart the social fabric. By increasing or decreasing interest rates, a central bank affects all prices across all sectors of the economy, including the salary you earn or the wages that you may demand when offered employment. What is more, this manipulation of interest rates, commonly known as ‘monetary policy’, influences the likelihood that a firm will give you, your siblings, or your neighbors a job.

Nevertheless, just like the central bank has been praised for stabilizing the macroeconomy, it has also been cursed for holding back development and perpetuating colonialism, if not neocolonial domination. This critique of central banks typically takes on the form of diatribes against neoliberalism. Indeed, neoliberalism – the ideology often associated with Western capitalism – dominates central banking. From Pretoria to Cairo, from Abuja to Buenos Aires, and from Nairobi to Washington DC, neoliberal economics dictates how governments should shape central banks, design their mandates, and frame their daily operations.

In central banking, neoliberalism emerged in the late 1960s as a movement to counter the policies then prevailing in the West and developed by British economist John Maynard Keynes after World War I. That movement, known as ‘the Chicago School’ and led by American economist Milton Friedman, disagreed with the Keynesian policies that recommended higher taxes and low interest rates to boost demand and investments. In contrast, Friedman urged governments and economists in December 1967 that, except when necessary to curb inflation, the state through the central bank should refrain from intervening in the market and tinkering with money supply by manipulating interest rates.

Since then, neoliberalism has permeated central banking across the globe, reinforced by mainstream economics education, professional socialization, imitation, and political coercion. Particularly, in the late 1970s, Friedman's ideas inspired Paul Volcker, the head of the Federal Reserve [the central bank of the United States]. These ideas, which economists refer to as 'monetarism', became the staple of central banking with the wholehearted support of UK Prime Minister Margaret Thatcher and US President Ronald Reagan in the 1980s. From that period onwards, neoliberal central banking evolved. This paramount economic philosophy now manifests through central bank independence (CBI), inflation targeting, and the depoliticization of monetary policy. Today, even the African Central Bank envisaged by the Treaty Establishing the African Economic Community embraces the neoliberal, monetarist precepts of Friedman.

Despite the fact that lawyers such as Christine Lagarde, Haruhiko Kuroda, and Jerome Powell head central banks (the European Central Bank, the Bank of Japan, and the US Federal Reserve, respectively), lawyers and jurists – like most ordinary people – generally shy away from central banking, which they usually consider too technical or too complex. This symposium therefore hopes to reverse this trend. In fact, given the impact that central banking has on our bread and butter, lawyers ought to address central banking questions. The absence of central banking in conversations about international economic law (IEL) and development in Africa is the dinosaur in the room.

To tackle questions surrounding central banking, neoliberalism, and development, this symposium has assembled a stellar cast, representing a cross-section of legal professionals from academia, the bar, the private sector, and the regulatory state. The contributors to this symposium demonstrate that neoliberalism still reigns over African central banking, but it displays different complexions.

First, Chantal Thomas & James Rowe, from the law school at Cornell University, define the core issues of central banking on the African continent. With perspicacity, they remark that what many scholars describe as 'neoliberalism' is in, reality, an ‘ordoliberalism’:

"[R]ather than a spontaneous effect of “free,” that is to say, deregulated, markets, [the frameworks that undergird central bank governance] arise out of highly concerted and complex sets of global market disciplines."

From this premise, the duo poses the legal question: Does the institutional design of central banks and their monetary policies emanates from the underlying legal commitments and policy choices, or do these central banks and monetary policies evolve outside the domain of ordinary laws and policies? For Chantal and James, the main dilemma faced by African central banks consists, on the one hand, in taming runaway inflation and, on the other, in promoting real-economy investment and production. To resolve this dilemma, they call for a ‘pro-developmental’ central bank.

Noting the ‘stubbornly persistent’ poverty and unemployment levels, Chantal and James accurately remark that “[t]he stakes have never been higher than now to revisit and interrogate the foundations of central bank design, especially so for Africa.” The biggest advantage of Chantal and James’s take in this fundamental debate is that it sets the scene for the other contributions to this symposium.

Issabella Anane-Fasuhene, a doctoral law student from the University of Pretoria, contextualizes the inflation-production dilemma pointed out by Chantal and James by highlighting how the financial stability mandate of the central bank of Ghana – the Bank of Ghana (BOG) – proved quite effective in cleaning up the financial sector. Between 2015 and 2016, BOG conducted a review of asset quality in the finance sector and discovered a host of problems, including insufficient capital, liquidity problems, and weak corporate governance. These problems prompted the central bank to embark on a large-scale cleanup of the sector.

The Ghanaian example reminds economists, lawyers, and skeptics that, despite its flaws, the neoliberal central bank nonetheless excels at stabilizing and ‘cleaning up’ financial markets. A cautionary tale that Issabella tells deftly with a vivid, tough-fatherly-love metaphor that brings to life the complexities and ambiguities of the financial stability mandate of central banks.

Bryan Eiseb, a Director at the Bank of Namibia (BON), does not only present the financial stability mandate of BON, Namibia's central bank. He also underscores the monetary-policy dimensions of central banking in Namibia, thereby illustrating the twin functions of central banks as stabilizers of markets and prices.

In this guided tour of the freshly enacted central bank law in Namibia, Bryan seeks to ascertain the extent to which the Bank of Namibia Act 1 of 2020 has carried over or imported neoliberal rules. He finds that the BON Act largely reproduces the tenets of neoliberalism in some respects, but deviates from them in others. In particular, the BON Act departs from neoliberalism by endowing BON with a developmental role in the banking sector and the economy, and by subjecting BON to democratic control through a positive duty on BON to annually report on its activities to the national legislature.

The Namibian experience embodies wider implications for the Southern African region as a whole because Namibia stands out as one of the the first countries to implement the central bank policies of the Southern African Development Community (SADC). Enshrined in the SADC Central Bank Model Law, this policy instrument exemplifies neoliberalism. For that reason, Bryan's exposé of the bare bones of the BON Act offers a golden opportunity to enrich our understanding of central banking, neoliberalism, and regional economic integration.

Like Issabella, Gerda Van Niekerk, a Senior Lecturer at the University of Limpopo, focuses on the financial stability mandate of central banks. Specifically, Gerda sizes up the Twin Peaks model that South Africa adopted in 2017. She explained that the global financial crisis of 2008 (GFC) served as a watershed event in financial regulation worldwide that emphasized the need for better coordination of monetary and fiscal policies and for improved prevention and management of systemic risks.

Against this backdrop, Parliament passed the Financial Sector Regulation Act 9 of 2017 (FSR Act), which introduced the Twin Peaks model in South Africa. Gerda unpacks the idea behind the model as striving to make the financial sector safer by installing two authorities: one responsible for the conduct of financial institutions and another responsible for system-wide risks. The

Financial Sector Conduct Authority (FSCA) regulates market conduct whereas the Prudential Authority (PA) prevents and manages system-wide (i.e., macro-prudential) risks. This model makes South Africa's central bank – the South African Reserve Bank (SARB) – guardian of financial stability.

Gerda posits that, as a developing country, South Africa needs to have the semblance of a developmental central bank. She therefore argues that the Twin Peaks model, with SARB as the guardian of financial stability, could be "a small step on the way of the SARB becoming such semblance of a developmental bank".

Andrea S. Mparadzi, a New York-based lawyer, spotlights an area of central banking that IEL scholars routinely ignore but that nonetheless sits at the heart of commerce and central banking: payment and settlement systems. The advent of the African Continental Free Trade Area (AfCFTA) has thrown payment systems into sharper relief. As Andrea remarks, the efficiency, speed, and safety of high-value payment cross-border payments on the African continent facilitate cross-border trade, especially under the AfCFTA. This awareness persuaded the African Union (AU) and the African Export-Import Bank (Afreximbank) to launch the Pan-African Payment and Settlement System (PAPSS).

Andrea, who works full-time in the payment and settlement systems industry, makes the sobering observation that regional cross-border payment systems designed without regard to a set of robust common standards amplify certain risks. For example, poorly designed payment systems may disrupt financial institutions and markets, and destabilize entire regions.

To ward off these risks, Andrea puts forth a set of 'Afro-market-centric' principles. According to Andrea, these principles would provide a baseline framework to which all African cross-border payment systems should subscribe. She draws on the Principles for Financial Market Infrastructures (PFMI) because they aim to strengthen and stabilize 'systemically important financial market infrastructures (FMIs)', such as payment systems. Among these principles, she singles out the principle that stresses that FMIs must have a well-founded, clear, transparent, and enforceable legal basis.

Andrea's essay brings home the larger point that, whatever suspicions they may harbor against neoliberalism, AU member states cannot dispense with stable payment systems if they dearly wish to see intra-African cross-border commerce flourish. Like Issabella, Andrea sheds light on those aspects of neoliberalism that central banks should retain – at least for now.

Caesar Cheelo, Marja Hinfelaar & Dunia P. Zongwe, wrap up this symposium by demonstrating that the distinct complexion of central banking that a country nurtures may be an accident of history. Through a case study of the Bank of Zambia (BOZ), the trio shows that the effective execution of the central bank's mandate does not solely rely on a sound legal framework for the central bank; it hinges – above all – on the government's guiding philosophy (neoliberalism or central planning) regarding the country's economic development.

Originally written by Caesar and Marja, from the Lusaka-based Southern African Institute for Policy and Research (SAIPAR), this contribution underlines the role of history in finance and development. At times, it illustrates the prevalence of neoliberalism in Zambian central banking; at other times, it reports some instances where the government trampled on this preeminent theory, for example, when the government interfered with central bank independence – this sacrosanct principle of neoliberalism. Notably, the essay by Caesar, Marja, and Dunia identifies such interference in the controversial dismissal of the BOZ Governor. Central bank independence (CBI), a principle found in nearly all central bank legislation in Africa and the world, endeavors to insulate the central bank from interference from the executive, and from the vicissitudes of political life.

The Zambian case study proves that not every government in Africa strictly adheres to neoliberal norms, nor do they all abide by their central bank laws. Notwithstanding pressures from credit rating agencies, international lenders, capital-exporting nations, governments in Africa may sidestep the neoliberal rules when these stand in the way of political expediency.

By the time you finish reading this symposium, the authors who contributed to it will have convinced you of the centrality of central banks. Like Mohammed El-Erian, you will come to acknowledge that central banks are truly "the only game in town". By then, the contributors to this symposium will have convinced you that in Africa, as in the rest of the globe, you should not hate the players; hate the neoliberal game. Such insights will hopefully ignite more debates on central banks in Africa and the economic ideologies that mold them. Most importantly, those keen insights would motivate you, central bank experts, and IEL thinkers to devise ways of changing the problematic rules of the neoliberal game.

**Contributors**

Chantal Thomas & James Rowe: International Economic Law and Central Banks in Africa: Towards a Progressive Pro-Development Approach

Issabella Anane-Fasuhene: Central Bank of Ghana: A Timorous Soul or a Bold Spirit

Bryan Eiseb: The Bare Bones of the Bank of Namibia Act of 2020

Gerda Van Niekerk: The Central Bank's Financial Stability Mandate: Sizing up Twin Peaks in South Africa

Andrea S. Mparadzi: Payment and Settlement Principles for Africa's Market

Caesar Cheelo, Marja Hinfelaar & Dunia P. Zongwe: Central Bank Independence and Institution Building During the Neo-Liberal Era: The Case of Bank of Zambia

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