

## **Mr Stals gives a summary of his views on central banking**

Remarks by Dr Chris Stals, retiring Governor at a Gala Dinner of the South African Reserve Bank, on 7 August 1999.

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### **1. Introduction**

I have listened to many speeches about central banking over the past forty years. Some of my international colleagues present here this evening will recognise titles such as

“The Agony of Central Banking”

“The Triumph of Central Banking” or

“The Art of Central Banking”

I can obviously make long speeches about each one of these subjects, or many others on central banking. Out of respect for this occasion and taking account of the late hour of night, I am going to be brief and give you, at the end of my long career in this wonderful profession, in summary form my views on what I would regard as:

### **2. The Twelve Commandments of Central Banking**

2.1 A true central banker will always be against inflation.

2.2 The need for independence of the central bank must be recognised and appreciated by the public and by governments but, after all is said and done, a central bank can only be as independent as the government of the day wants it to be. From my experience I have learned that, without regular contact and close co-operation with the Minister of Finance the life of a central banker can become very lonely.

2.3 In many countries of the world the powers of the central bank should be reduced in order to increase the effectiveness of monetary policy. Joined with the potent power to create money, the power also to make loans and spend money has the potential to create a malignant superpower whose actions can easily lead to financial destruction.

2.4 Wealth cannot be created by the creation of more money; poverty cannot be relieved by increasing the money supply. If this would have been possible there would have been no poverty in the world any more.

2.5 By successfully restricting growth in the total domestic assets of the central bank, monetary policy will bring about positive growth in the total foreign assets of the country.

2.6 A central banker is often very unpopular in his own country. As a matter of fact, if the governor does become popular in his own country, it may be time for him to retire. Monetary policy is about financial discipline, about restricting expenditure, about forcing the country to live within its means. Measures to achieve these objectives can never be popular. You cannot ask the turkeys of the world to vote for Christmas. You also cannot ask the borrowers of money what the level of interest rates should be.

2.7 Where anybody stands on monetary policy is determined by where he sits. When I was criticised for the policies of the Bank, I always asked who the critic was and where he worked. The answer invariably made me apathetic to the criticism.

2.8 A country may be able to keep politicians out of interest rates, but you can never take interest rates out of politics. When politicians therefore make statements about interest rates, tolerable central bankers should accept that politicians talk to their voters, and not to central bankers.

2.9 There is no such thing as central banking by rules. Discretion remains indispensable in the daily implementation of monetary policy. Economics, after all, is not an exact science. In the world of macroeconomic policy two plus two may sometimes add up to five. The central banker must, however, never try to stretch it to six.

2.10 A central banker must learn to ignore any praise bestowed on him, particularly through or by the public media. This will justify his right also to brush aside the unfair criticism that will be launched at him next time from the same source.

2.11 In our present world of a rapidly changing global financial environment, a central banker must be a student for ever. Always remember the old Chinese saying that a man must study as if he will live forever, but live as if he will die tomorrow.

2.12 I have left the most important commandment for the last – a good central banker is always against inflation.

These twelve commandments represent for me a final conclusion of my experience as a central banker over many years.

### **3. The people in central banking**

I cannot let this occasion go by without saying a few words about the people I worked with over many years as a central banker.

Firstly, there are the people in government. I wish to thank the Presidents of our country who appointed me in 1975 as Deputy Governor, in 1980 as Senior Deputy Governor and then on two occasions in 1989 and again in 1994 as Governor of the South African Reserve Bank. It was a great privilege for me to serve our country and all of its people for more than twenty years in these senior positions in the Bank.

I thank the five Ministers of Finance with whom I worked very closely over this extended period of time. And I add to their names the Directors General and the staff of the Government Departments such as Finance, State Expenditure, the S.A. Revenue Services and Trade and Industries for their co-operation. It is still true as Walter Bagehot observed in the previous century that monetary policy begins at the Treasury. Without co-operation between the central bank and the ministry of finance both monetary and fiscal policies will be weaker.

I enjoyed the loyal support of all the people who served with me on the Board of Directors of the Reserve Bank. In particular, I would like to thank those Board members who supported me with dedication and devotion over the past ten years when I was also Chairman of the Board.

No words can express my appreciation to the staff of the Bank, all my colleagues past and present who worked with me with great commitment to achieve our objective of protecting the value of the rand in the interest of all the people of South Africa. Many times I said to you, and to the many people in South Africa and abroad who praised me for the achievements of the Bank, that we must always remind ourselves that the world is run by people second in charge. You made the South African Reserve Bank the outstanding institution of excellence that it is known to be today. You shall also protect this laudable reputation of our proud institution in the future.

I am grateful for this opportunity to direct a few words of appreciation also to the many foreign visitors we have with us this evening, firstly, to the Governors and representatives of central banks, the International Monetary Fund and the Bank for International Settlements. What a wonderful experience it was for me to have been a member of the exclusive club of central bankers in an expanding global financial environment. I have learned more from you in conferences, in meetings and in numerous discussions than from all the textbooks I struggled with to obtain my university degrees.

It is a great privilege for us to have the governors of more than ten central banks from Africa here this evening, and also senior staff members to represent others. I wish I could spend another ten years working with you in meeting the great challenges we face together to develop the financial structures

of our continent, and to establish in Southern Africa an intimate forum for effective central bank co-operation.

We have a number of private foreign bankers present here, representing institutions that battled with me in the days of South Africa's isolation and debt rescheduling arrangements, but also lend great support to me and the Reserve Bank, particularly over the past five years when we had to reintegrate our country in a rapidly changing global financial market environment.

I pay tribute to the South African bankers who do not always agree with the Reserve Bank's hard line approach on financial disciplines, but who always remain loyal to their central bank. It did not go unnoticed in the world financial markets over this past year, with major global financial market disruption, that the South African banking sector remained stable and sound. I give the credit for this to you, the managers of sound and well-disciplined private sector institutions.

Finally, talking about the people of central banking, I must thank my wife, my four children together with their spouses for their support over many years. I like to refer to the husband and wives of my children as my children who became my children because of the decisions of my children. My wife seldom had a normal husband, my children must on many an occasion have missed a normal father in the house because they had to contend with a husband and a father addicted to central banking. My peers as central bank governors will know what these words mean.

#### **4. The future of central banking**

Looking ahead, I can only express my regrets that I were not as of today ten years younger. Exciting times lie ahead for the central bankers of the world as the process of the integration of financial markets around the globe will continue. However, I leave the South African Reserve Bank in great peace of mind because I am confident that Mr Tito Mboweni and the team with him in the Bank have the ability, the determination and the will to steer South Africa successfully into this brave new world.

Tito, I admire the way in which you approached the past year of induction with us in the Reserve Bank. You succeeded in getting the staff of the Bank on your side. You grasped very quickly what many outsiders will always regard as the mystique of central banking. You have truly become one of the members of the exclusive club of central bankers of the world. I leave the Bank with great confidence that you will be the Governor that will finally destroy the African jackal of inflation in our country. I wish you well.

#### **5. Conclusion**

One day, shortly after lunch, as I was sitting in the Governor's office on the 32nd floor of the Reserve Bank Head Quarters building in Pretoria, the sliding door to the balcony in front of the office was standing open. I heard a noise and there came a bird almost falling out of the air as if it was shot. I walked out and found a beautiful homing pigeon lying on the floor of the balcony as if it was dead. I carried on with my duties behind my desk.

After about half-an-hour, I noticed the pigeon was recovering. On weak legs and with watery red eyes it started observing the environment. And then, to my surprise, with unexpected dignity and confidence, it walked straight into the Governor's office. The pigeon settled itself down on the carpet against the couch. I realised this bird must have come from somewhere far and it must be thirsty and hungry. In an ashtray, I gave it some water. My secretary produced a few breadcrumbs from somewhere. The pigeon drank and ate with a grateful look in its beautiful yellow-ringed red eyes, and then nestled down for a good sleep-in.

I asked my Secretary not to let anybody into the office and to walk on tip-toe as long as the special guest stayed with me. After about two hours with the sun already setting in the west, my visitor woke up, looked around and then, with even greater dignity and self-composure, walked out of the office. On the balcony, it stretched its legs, shook its wings and looked around to determine direction. And

then it took off and flew away. The bird obviously came a long way and was now destined for the comforts of its home, and for a good rest after a long journey.

I could not help but to think of this homing pigeon when I left the office of the Governor on the 32nd floor of the Reserve Bank building for the last time this morning.