



SOUTH AFRICAN RESERVE BANK

**Keynote address by Lesetja Kganyago,
Governor of the South African Reserve Bank,
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Institutions, leadership and the populist challenge

Good day and thank you for inviting me to give this keynote address.

Let me join you all in congratulating Andile Nikani on his appointment as the Chief Executive Officer (CEO) of the Arbitration Foundation of Southern Africa.

Arbitrators work to achieve fair outcomes. Fairness is an objective that is valued universally, even by children from an early age. But arbitrators like you also achieve something else.

As the field of law and economics has shown us, when you apply economic reasoning to law, you often find that traditional legal approaches overlook the importance of efficiency. In a dispute, especially a professional dispute, parties fear long delays and excessive costs. If you get stuck in a process like that, even winning offers little consolation.

So let me commend you, not only for ensuring fairness, but also for doing it efficiently enough that parties freely choose you to resolve their conflicts and voluntarily accept your decisions.

For this keynote, I have chosen a subject that I hope will interest both economists and lawyers. I want to talk about the populist challenge to institutions and what it means for leaders.

The fact is that populism is widespread in the world.

It was once seen as a developing-country phenomenon – something rooted in places like Argentina – and not much of an issue in mature democracies. But no one believes that now, especially not since 2016, with the surprise outcomes of the Brexit referendum and the United States election. Last year – the year of elections – made that point even clearer. Whether we are talking about rich countries or poorer ones, there is no denying that we are in an age of populism. We need to reflect on why populist ideas have this appeal, and how we can respond.

Populism has several facets. A few years ago, I gave a speech on the economics of populism, which unpacked the constraints that lead populists to economic disaster.¹ But my focus today is on institutions.

Populists have long been defined, in part, by their hostility towards institutions.² The standard attack is that existing institutions are controlled by elites, who treat ordinary people with contempt and ignore their interests. Institutions claim to have expertise, but populists are suspicious of experts. They do not like the idea that policy choices require specialist knowledge and therefore cannot be left to ordinary people. And they unfairly target experts who they claim abuse their status to exclude regular people, for instance by using big, technical terms instead of speaking plainly. Populist leaders also typically promise to wage war on institutions, to clean out what they claim as the corrupt intermediaries so that they can take charge themselves.

Unfortunately, when populists come into power, they usually fare badly. It is hard to run a modern country without a lot of help and technical expertise. It is hard to stay honest without the necessary checks and balances. This is precisely why institutions are established in the first place. Dismantling them typically results in chaos, incompetence and corruption.³ These adverse outcomes make it easy to condemn populism.

¹ E L Kganyago, 'Lessons from the economics of populism'. Address by Lesetja Kganyago, Governor of the South African Reserve Bank, at the ABSIP National Conference, Johannesburg, 19 October 2018. <https://www.resbank.co.za/content/dam/sarb/publications/speeches/speeches-by-governors/2018/537/An-address-by-SARB-Governor-Lesetja-Kganyago-on-lessons-from-the-economics-of-populism.pdf>

² See C Mudde, 'The Populist Zeitgeist', *Government and Opposition* 35(4), 2004.

³ See for instance M Funke, C Trebesch and M Schularick, 'Populism's broken economic promises', *Foreign Affairs*, 26 September 2024. <https://www.foreignaffairs.com/world/populisms-broken-economic-promises> "... we found that most populists weaken a state's economy, especially in the long run. They do so in large part by undermining the rule of law and by eroding political checks and balances. Our study makes clear that although populists may sell themselves as the solution to a

But just because populism has a record of failure does not mean that established institutions are doing well.

The duty we have as leaders of institutions is not only to push back against populist attacks but also to ensure our institutions are above these criticisms. This is not an easy task.

Probably one of the most difficult for us was in 2017, when the South African Reserve Bank (SARB) came under attack from the Public Protector (PP) – an independent institution established by the Constitution to uphold constitutional democracy and to investigate claims of abuse of power. The PP had investigated a case for which we believed she did not have jurisdiction. Despite this, we still assisted and cooperated fully with the investigation. We were shocked when we found that one of her recommendations was that the mandate of the SARB be changed. In essence, a key recommendation would have taken away the SARB's mandate of price stability without assigning it to another entity. We felt duty-bound to defend the independence of the SARB as a key institution of our democracy and challenged the report in court. The court ruled emphatically in our favour.

The fact is, institutions do not always perform well. How to address this is a major problem, and arguably an under-studied one.⁴ And it is especially challenging in the public sector.

In the private sector, as the scholar Albert Hirschman famously argued, if businesses do not perform, they lose customers. This prompts business leaders to make changes. If they fail to do so, they may go bankrupt, and other firms will take their market share.

Economists love this mechanism. Not only does it punish bad performers and reward reformers, but it also drives innovation as firms come up with better products than their rivals and lure away their customers. For example, I am guessing there are plenty of

country's ills, they tend to make life worse. Populists, in other words, hurt the 'real people' they claim to be saving."

⁴ See for instance F Ferrara, *The Development of Political Institutions*, 2022, especially Chapter 3. "... while the literature seeking to account for the entrenchment and stability of institutions is so voluminous as to render the task of contributing original insights appear rather daunting, historical institutionalism has neglected the study of institutional decay to the point of requiring anyone interested in theorizing the phenomenon to formulate an explanation almost from scratch."

smart phones in this room, but no BlackBerrys. The giants of one era are humbled in another.

An Intel CEO, Andy Grove, wrote a famous book about this process, titled *Only the Paranoid Survive*. His key insight was that when you are on top, there is an overpowering temptation to focus on the thing that got you there. But then you fail to innovate, and someone else comes along with something better and takes your market.

The challenge for big firms is to innovate before their competitors do. But this is incredibly hard to do.⁵ Fortunately for society, however, the combination of innovation and exit ensures the market stays dynamic. Some firms fall while others rise. The economy moves forward.

A key theme of the current populist surge, particularly from its backers in the technology industry, is that the public sector is much less dynamic. It is painted as being sheltered, inefficient and guilty of strangling the rest of the economy through excessive regulation.⁶ It turns out that many people agree with this view.⁷

How should public sector institutions respond to these criticisms?

One defence is to say that a ‘move fast and break things’ philosophy, which may work well in some parts of the private sector, is not appropriate for the public sector, which needs to deliver stability and predictability. Indeed, you could even say that creative destruction works better in a stable institutional setting, supported by safety nets.⁸

This argument is sometimes persuasive, but not always. After all, not all public sector institutions perform well. There is a valid question about how to get public sector

⁵ For a discussion, see Chapter 22 in C Miller, *Chip War*, 2022.

⁶ For a recent survey of this theme, see ‘Many governments talk about cutting regulation but few manage to’, *The Economist*, 30 January 2025. <https://www.economist.com/briefing/2025/01/30/many-governments-talk-about-cutting-regulation-but-few-manage-to>

⁷ For example, see G Tett. 2025, January 31. ‘Musk is right – US government badly needs a digital makeover’, *Financial Times*, 31 January 2025. <https://www.ft.com/content/f9754b26-25fc-4403-8d42-3b12e82cd20f> “... America is bedevilled by a paradox. On the one hand, its private sector is extraordinarily dynamic, and driving much of the 21st-century tech revolution, with its laser-like focus on consumers. But on the other, its government bureaucracy is sclerotic and inefficient, with an antediluvian approach to technology.”

⁸ For example, see D Rodrik, ‘Why do more open economies have bigger governments?’, *NBER Working Paper Series No. 5537*, April 1996. https://www.nber.org/system/files/working_papers/w5537/w5537.pdf

institutions to pursue their missions with urgency and to behave like they are truly servants of the public, not their masters.

I mentioned Albert Hirschman earlier, and of course he argues that market mechanisms are not the only option for addressing institutional failings. In his most famous book – *Exit, Voice, and Loyalty* – he makes a case that staying loyal to institutions and demanding reform, rather than leaving them, could drive better results.⁹

The case for having a voice is inspiring, and there is little doubt in my mind that community involvement and activism play an important role in holding institutions to account. But we also need to recognise that decay is usually quite advanced by the time civil society mobilises. It is rarely a pre-emptive solution.

We also need to recognise that ‘voice’, when it is a howl of outrage, can easily take the form of a populist rebellion, with its own dangerous consequences.

My conclusion is that leaders have a vital role in proactively addressing institutional decay. And this is where we need to take inspiration from the book I cited earlier: ‘Only the paranoid survive’.

Leaders need to feel the urgency about doing better, and they need to feel it well before the populists show up. In this age of populism, institutions are not going to get the benefit of the doubt. They have to perform, and they have to be transparent and communicate effectively.

Let me now turn to how this applies to the SARB.

The fact is, we have no competition: there is only one central bank in the country. We also have the power to create money. This privileged position means we have a greater responsibility to be disciplined to resist complacency. There is a famous saying in economics that “the best of all monopoly profits is a quiet life”.¹⁰ But I can tell you, even if we tried to live that quiet life, we would be inviting populist attacks.

⁹ Hirschman further argues that exit sometimes exacerbates institutional decline, because it is typically the best-resourced and most-informed people who leave first. Those left behind have a harder time demanding accountability and reform. A O Hirschman, *Exit, Voice, and Loyalty: Responses to Declines in Firms, Organizations, and States*. Harvard University Press, 1970.

¹⁰ J R Hicks, ‘Annual survey of economic theory: the theory of monopoly, *Econometrica*, January 1935, p. 8

To deal with this, we try to foster a culture of innovation, accountability and transparency. This means we take satisfaction in getting things done, and we make a point of communicating clearly and extensively.

Let me give some concrete examples of this philosophy in action.

My first example is about transparency. We recently volunteered for an independent review of our transparency practices, undertaken by the International Monetary Fund (IMF).¹¹ We did this because we believe central bank independence is only tenable if there is also accountability, which demands easy access to information. The review provided some positive comments as well as suggestions and criticisms on areas for improvement. Compliments are always nice, and the review affirmed that our transparency practices could serve as a model for other central banks. But criticisms are equally important and certainly welcomed, especially when offered in good faith. They are mainly suggestions for innovation, some of which may work for us.¹²

My second example is our inflation target. Since 2000, the SARB has had a target range of 3–6%. It was meant to be lowered to 3–5%, but that adjustment was postponed when the rand depreciated in 2001, and it was never reinstated. The result is that we have used a higher and wider target than most other countries ever since. During this time, the SARB has developed a reasonably good inflation-fighting reputation. We could get away with leaving the target unchanged. But the research has been done, and we are convinced that South Africans would be better off with lower inflation, and thus a lower target. We champion this idea because we believe deeply in excellence in price stability, not just in doing the least we can get away with.

My third example is about payments. Payment infrastructure is often viewed as important but unexciting, like plumbing. However, payments are currently a major strategic priority for the SARB, and one of the most interesting things we are working on. As you may have seen, we have recently acquired a 50% stake in BankservAfrica,

¹¹ IMF, 'South Africa: Central Bank Transparency Code Review', 2 December 2024. <https://www.imf.org/en/Publications/CR/Issues/2024/12/02/South-Africa-Central-Bank-Transparency-Code-Review-557776>

¹² For example, the report made various recommendation about transparency for the Gold and Foreign Exchange Contingency Reserve Account (GFECRA), such as creating a dedicated page on the SARB website for this content, publishing the settlement agreement, and disclosing GFECRA balances more regularly. All these have now been implemented. For the dedicated page, see <https://www.resbank.co.za/en/home/what-we-do/financial-markets/The-Gold-and-Foreign-Exchange-Contingency-Reserve-Account>

and we will be using this investment to drive a major modernisation of South Africa's payment ecosystem. Together with government and the industry, we plan to provide cheap, safe and fast digital payments, delivered at a retail level to our whole society to complement banknotes and coin. This is an innovation that will create significant benefits for ordinary people, and we are proud to be leading it.

Ladies and gentlemen, to conclude, the populist charge is dangerous and pervasive. Complacent institutions that do not engage the public effectively are going to be vulnerable. Our best defences are honesty with the public and excellence in pursuing our mandates. It is up to leaders of institutions to make this happen.

Thank you.