LIBERTY FIRST

# Sound Money

David Ansara


Liberty First is an initiative of the

FMF

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# Sound Money

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## Series Preface

On 29 May 2024, South Africa conducted its 7th election since the transition to constitutional democracy three decades prior in April 1994. In 1994, the African National Congress (ANC) thundered to power and acquired 63% of the seats in the National Assembly, a percentage it improved to 66.5% in the 1999 election. Since then, the ANC has been progressively losing vote share.

The ANC's liberalisation of the economy in the 1990s rewarded it with increasing democratic mandates, culminating in a nearly 70% of the vote in the national elections in 2004. However, in the wake of the global financial crisis and the election of Jacob Zuma to the presidency of the ANC in the late 2000s, the ruling party abandoned this policy approach and adopted something approximating outright socialism as the lodestar for policymaking. Predictably, this resulted in worsening socio-economic outcomes.

Today unemployment in South Africa stands at 32.9% – the highest in the world – and South Africa has for the past decade (since 2013) averaged less than 1% annual growth in GDP per capita.

At the 2024 general election, the ANC lost its absolute hold on political power when it secured only 40% of the seats in the National Assembly, forcing it, for the first time, to share power nationally with parties formerly in opposition. This led to, among others, the Democratic Alliance (DA), Inkatha Freedom Party (IFP), and the Freedom Front Plus (FF+), all parties with historically more pro-market policy perspectives, being included in the so-called "Government of National Unity" (GNU) formed on 30 June 2024.

The outcome of this election has, once again, left the door towards fundamental policy reform ajar. In recognition of this potential and of the severity of the present situation, the Free Market Foundation (FMF) has launched its *Liberty First* initiative to place practical solutions at the feet of policymakers that would meaningfully change socio-economic outcomes.

These solutions are premised on the Fraser Institute's *Economic Freedom of the World* (EFW) annual report, which clearly sets out the kinds of policies that produce "economic freedom" around the world, and those that detract from economic freedom. Where the EFW is compared to indices on human development, mortality, democracy, civil liberty, press freedom, happiness, and so forth, it is evident that countries scoring highly on economic freedom produce better social outcomes, than countries with more interventionist governments.

The FMF therefore published this series of papers, with each covering one of the five categories that the EFW measures – Size of Government, Regulation, Sound Money, Freedom to Trade Internationally, and Legal System & Property Rights – setting out the reforms the GNU, or any subsequent government, can implement to climb the EFW ranks and follow the charted course of prosperity for all.

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## Introduction

This final paper in the Liberty First series concerns itself with the area of sound money. The first part of the paper provides an overview of South Africa's economic performance, analysing the trends and characteristics of sound money in South Africa compared with those of other countries as indicated in the EFW index.

The second part of the paper contains policy recommendations and proposed reforms to strengthen the soundness of money in South Africa. Here the paper analyses the pernicious effects of inflation and how to mitigate it.

The paper then examines the theme of central bank independence. It catalogues the efforts of various political groupings to undermine the independence of the South African Reserve Bank (SARB) and makes recommendations to preserve the Bank's independence.

Finally, the paper explores the emergence of digital money and cryptocurrencies, with a particular emphasis on Bitcoin. South Africa could greatly benefit from embracing Bitcoin and the paper argues for an appropriate "light-touch" regulatory framework to facilitate Bitcoin adoption.

## EFW score and why it matters

Overall economic growth in South Africa has consistently disappointed in recent years and the concomitant ills of unemployment and poverty have unfortunately accompanied the decline in economic prospects. However, it can be clearly gleaned from the underlying data that this has not always been the case – or at the very least that the extent to which our economy has been characterised by sclerotic expansion has not been equivalently dire in recent decades.

The following section will begin with a brief overview of the overall performance of the South African economy before identifying the key factors which have contributed to its more recent stagnation. As will become clear in the analysis, the relevant "turning point" in our economic prospects seems to have taken place in the post-2008/9 global financial crisis (GFC).

## Brief historical overview of the South African economy

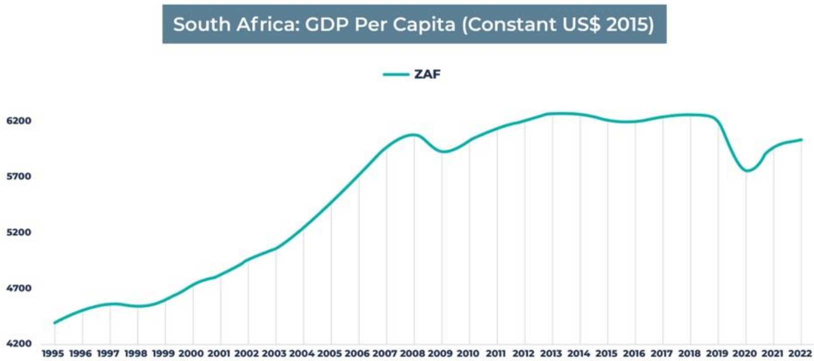


*Figure 1: GDP per capita constant 2015 U.S. dollars, South Africa 1995-2023*

Figure 1 illustrates the extent to which growth in South Africa can be broadly broken down into three periods, each encompassing a decade in the democratic dispensation. The first period, in the 1990s was characterised by a reasonable, albeit relatively mild, recovery from the downturn on the 1980s. The second, taking place in the 2000s, represents the zenith of economic growth and development. Unfortunately, however, we have failed to replicate the results of either of the preceding periods since 2010 when an epoch of persistent overall stagnation and particular decline was introduced.

The vast gulf between the economic performance of our most recent period and that of the decade which preceded it can be ever more clearly illustrated not with reference to the above absolute performance in per capita GDP, but by looking at the rate of growth in real GDP per capita.

The following graph shows that whilst 2% real growth in per capita GDP had represented something of an expected minimum baseline for development in the 2000s leading up to 2008, the economy has since then struggled to reach even half that previous baseline.

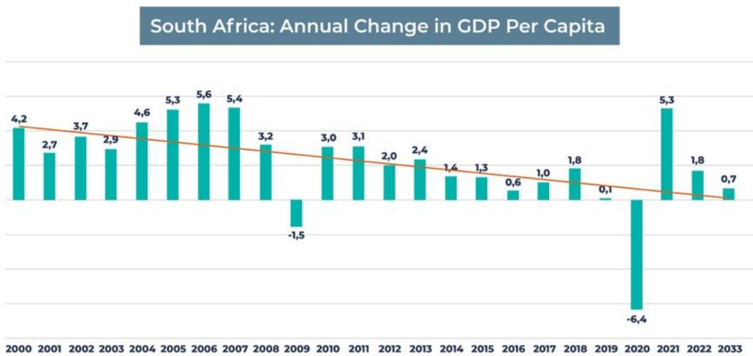


*Figure 2: Annual change in GDP per capita, South Africa 2000-2023*

Tragically, albeit unsurprisingly, such a reversal in economic performance has coincided with several other undesirable socio-economic outcomes such as increasing overall unemployment, a dramatic increase in youth unemployment and declining investment into the economy.

The significant gains in overall employment which characterised the 2000s had lost its momentum entirely by 2010 and had already begun to swing in the other direction when the devasting lockdown-era spikes in unemployment had taken place.

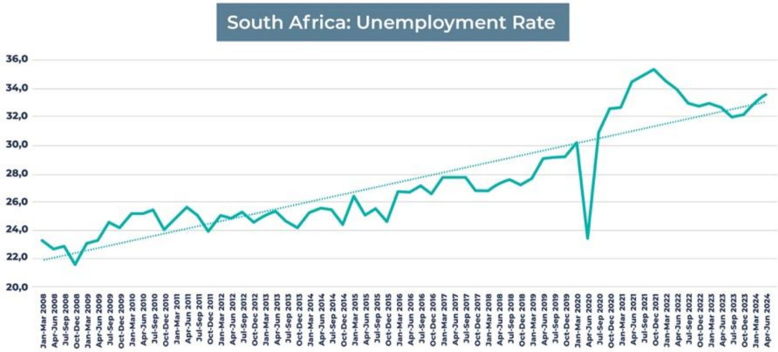


*Figure 3: Unemployment rate, narrow definition South Africa 2008-2023*

Worrying as the abovementioned may be, the figures for South Africa's youth look rather more dire. While some degree of unemployment amongst young people is to be expected and could suggest underlying dynamism and exploration as younger individuals seek better opportunities early in their careers, the spike in the aftermath of the GFC and the subsequent rise point to structural lack of opportunities for the youth to enter into the labour force.

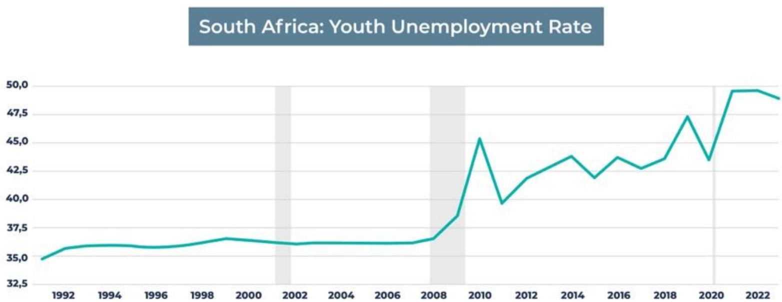


*Figure 4: Youth unemployment for South Africa 1990-2023*

A final metric which further illustrates the trend identified above relates to Gross Fixed Capital Formation in the economy. Here again, the data follow a similar pattern which flows from high growth in long term investment during the 2000s, towards a circumspect stance in the 2010s culminating in highly volatile and ever declining overall accumulation of capital goods.

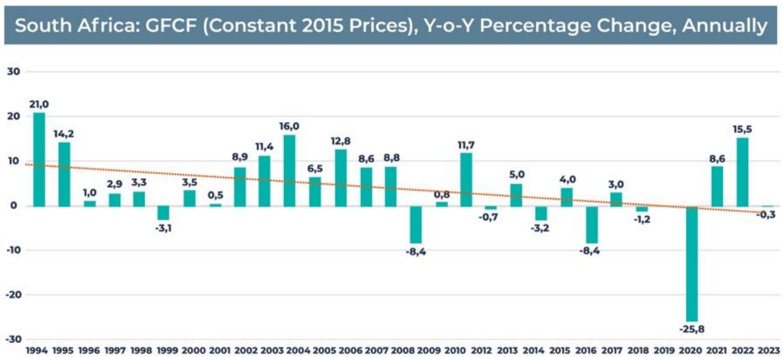


*Figure 5: Gross fixed capital formation (GFCF) constant 2015 prices, Y-o-Y % change, South Africa 1994-2023*

We have chosen for the purposes of this paper to focus on overall economic growth, unemployment rates and changes in fixed investment as measures of economic well-being. However, it should be stressed that regardless of the metric one chooses to analyse, South Africa's economic performance for the past three decades has been lacklustre. Yet, even more concerning is the fact that our performance on these metrics has not only been poor but has also worsened over time.

A fundamental shift in policy is non-negotiable. The rest of this paper will detail what such a shift must look like by identifying the ostensible causes undergirding the lacklustre performance of the South African economy in recent years. The first metric which concerns our analysis is that of overall economic freedom in the economy.

## Stylised summary of trends in economic freedom for South Africa

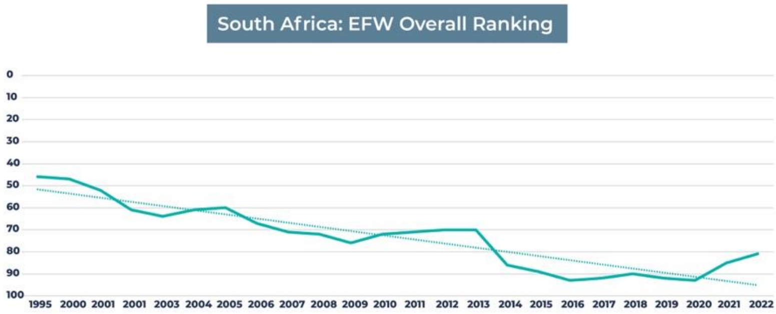


*Figure 6: SA EFW rank 1995-2022*

As indicated in the above chart South Africa has been in continual decline concerning economic freedom since the dawn of democracy. The most concerning development to note in the above graph is not so much the short-term fluctuations in South Africa's ranking relative to other countries but rather the long-term trend towards lesser freedom in the economy with an especially notable decline at roughly 2014. A final note before proceeding to further comparisons with other jurisdictions, is to highlight the relation between declining overall economic freedom and the decrease in economic performance identified in the previous section. It will be clear at the conclusion of the present section that such a strong positive correlation between freedom and growth exists not only within our country but is even more pronounced in comparisons between countries.

To further illustrate the extent to which South Africa has diverged from its peers regarding its trend toward greater intervention into the economy through regulation, taxation and state interference with economic activity, the following table details South Africa's decline relative to other Sub-Saharan African countries.

| Rank | 2000 | 2005 | 2010 | 2015 | 2022 |
|---|---|---|---|---|---|
| **1st** | Mauritius | Mauritius | Mauritius | Mauritius | Mauritius |
| **2nd** | **South Africa** | **South Africa** | Uganda | Seychelles | Cabo Verde |
| **3rd** | Uganda | Kenya | **South Africa** | Cabo Verde | Seychelles |
| **4th** | Botswana | Botswana | Ghana | Gambia, The | Gambia, The |
| **5th** | Zambia | Uganda | Kenya | Uganda | Kenya |
| **6th** | Tanzania | Ghana | Zambia | Rwanda | Uganda |
| **7th** | Kenya | Zambia | Rwanda | Botswana | Botswana |
| **8th** | Namibia | Namibia | Gambia, The | Kenya | **South Africa** |
| **9th** | Mali | Tanzania | Botswana | **South Africa** | Rwanda |
| **10th** | Senegal | Côte d'Ivoire | Tanzania | Tanzania | Tanzania |

*Table 1: Top 10 freest economies by overall EFW score in Sub-Saharan Africa, 2000-2022*

Whereas South Africa was second only to Mauritius in terms of economic freedom in 2000 and 2005 the following periods have been characterised by a persistent drop in the rankings with South Africa still languishing at the bottom-end of the rankings in the latest report.

Because the EFW comprises a composite index of various factors, there is often a significant level of deviation within the underlying elements of the index where great gains could be made at one level while other factors remain constant or deteriorate. Moreover, one should not limit an analysis of the outcomes to the rankings but should instead focus on the changes in the actual scores from which those rankings are derived. The following graph compares the changes in economic freedom summary scores for South Africa (ZAF), Romania (ROU) and the Dominican Republic (DOM):

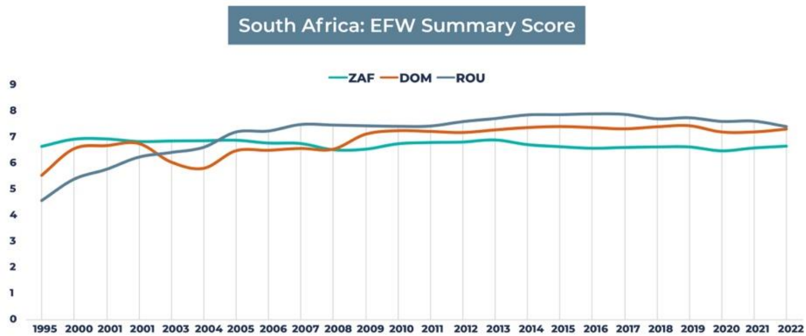


*Figure 7: EFW summary scores: South Africa (ZAF), Romania (ROU), Dominican Republic (DOM), 1995 – 2022*

The trends could hardly have been clearer. Whereas South Africa was the freest of the three jurisdictions under investigation in 1995, it is today the least free – resulting both from the adoption, over time, of freedom enhancing policies on the part of Romania and the Dominican Republic as well as a rejection thereof by domestic policymakers.

As alluded at the beginning of this section, the impact of such a trend goes far beyond mere figures in an index and is manifest in the tangible influence which such policies have on economic performance:

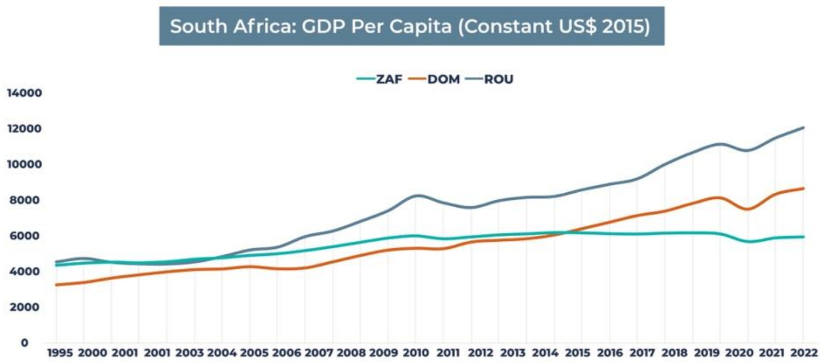


*Figure 8: GDP per capita, constant US$ 2015 prices: South Africa (ZAF), Romania (ROU), Dominican Republic (DOM), 1995 – 2022*

The results borne from greater economic freedom could scarcely have been clearer. South Africa having started in 1995 with a comparable level of economic wealth as that of Romania and being significantly richer than the Dominican Republic at that time, has since been surpassed by both. Likewise, Romania which saw a greater change in the degree of freedom has also seen far greater economic growth than the Dominican Republic.[1]

The above is but one of a multitude of examples which could be marshalled to illustrate the impact of what we have termed the "freedom dividend." This notion, namely that economic freedom generates societal wealth which accrues to all its members, represents the foundation of the Liberty First policy agenda.

[1] Although not illustrated here, an even starker contrast could be drawn between the Dominican Republic and its immediate neighbour, Haiti. Once again, cementing the enormous value of economic freedom as a driver of prosperity.

## The freedom dividend

One of the most notable revelations from the EFW is what might be termed the "freedom dividend" that exists for the poorest 10% of a society's population.

Comparing the economic freedom scores of countries with the amount of income earned by the poorest 10% of the populations in those countries, it is shown that the poorest demographic of the population in the first quartile of economic freedom (the most "free market" states) earns $14,204 (R250,000) on average per annum, compared to a mere $1,736 (R30,500) in the fourth quartile of economic freedom (the least free market states).[2] The difference is stark.

The poorest of the poor, therefore, earn some eight times more when they find themselves in the midst of free market policies. A higher degree of state interference in the economy is, therefore, not only unquestionably worse for overall economic performance but also quantifiably worse for the poor. Each of the following papers will indicate how placing *Liberty First* when crafting policy generates wealth, prosperity and fulfilment within societies.

## Sound money score and rank

The 2024 *Economic Freedom of the World* annual report highlights the importance of sound money as a key component of economic freedom:

> "Money is involved in nearly every transaction in an economy so unexpected changes in its value have a profound effect on peoples' ability to make their own economic choices. If a government's monetary authority creates significant unexpected inflation, it makes money less valuable, expropriating property from savers."[3]

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[2] *Economic Freedom of the World: 2023 Annual Report* 19.
[3] *Economic Freedom of the World: 2024 Annual Report, pp.1-2.*

Consequently, the index measures the extent to which people have access to sound money and the ability of the currency to maintain its value over time. This means that government must “permit its citizens to access a currency with low (and stable) rates of inflation and avoid regulations that limit the ability to use alternative currencies.”[4]

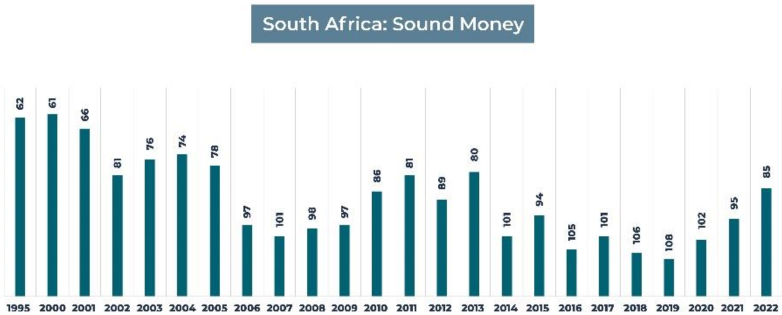


*Figure 9: SA sound money, rank 1995-2022*

South Africa’s performance in the area of sound money is summarised in Figure 9, above.

To calculate the soundness of money, the following sub-indicators are evaluated:

(a) Money growth[5]
(b) Standard deviation of inflation[6]

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[4] *Economic Freedom of the World: 2024 Annual Report, p2.*

[5] “Measures the average annual growth of the money supply in the last five years minus average annual growth of real GDP in the last ten years. Countries where growth of the money supply greatly exceeds growth of real output receive lower ratings.” *Economic Freedom of the World: 2024 Annual Report, p76 (appendix)*

[6] “Measures the standard deviation of the inflation rate over the last five years. Generally, the GDP deflator is used as the measure of inflation for this component. When these data are unavailable, the Consumer Price Index is used.”
*Economic Freedom of the World: 2024 Annual Report, p77 (appendix)*

(c) Inflation: most recent year[7]
(d) Foreign currency bank accounts[8]

How has South Africa fared in the area of sound money over time? Table 2 summarises both the overall economic freedom rank and score as well as that of sound money. The table also includes the scores for the sub-components which are used to construct the average score for the broader area of sound money.

| South Africa | | | | | |
|---|---|---|---|---|---|
| **Year** | **2022** | **2017** | **2012** | **2007** | **2002** |
| **Economic Freedom Summary Index (Rank)** | 6.65 (81) | 6.60 (92) | 6.81 (70) | 6.81 (71) | 6.77 (61) |
| **Sound Money (Rank)** | 7.60 (85) | 7.88 (101) | 7.81 (89) | 7.09 (101) | 7.24 (81) |
| **A. Money growth** | 8.60 | 8.89 | 9.16 | 6.93 | 8.28 |
| **B. Standard deviation of inflation** | 9.62 | 9.70 | 9.23 | 9.29 | 9.34 |
| **C. Inflation** | 7.18 | 7.93 | 7.84 | 7.16 | 6.33 |
| **D. Foreign currency bank accounts** | 5.00 | 5.00 | 5.00 | 5.00 | 5.00 |

*Table 2: Summary of metrics for sound money, South Africa 2002-2022*

In the area of *Money growth* there has been a slight downtick in the past five years from a score of 8.89 in 2017 to 8.6 in 2022. This suggests

[7] "This component has historically distributed the 0-10 ratings between values for the inflation rate of 50% and 0%. With this report, the value for annual inflation rate that generates a rating of 0 has been changed from 50% to 25% for all years' data. Generally, the Consumer Price Index is used as the measure of inflation for this component as it is often available before the GDP deflator is available. When these data are unavailable, the GDP deflator inflation rate is used."
*Economic Freedom of the World: 2024 Annual Report, p77 (appendix)*

[8] "When foreign-currency bank accounts are permissible without any restrictions both domestically and abroad, the rating is 10; when these accounts are restricted, the rating is 0. If foreign currency bank accounts were permissible domestically but not abroad (or vice versa), the rating is 5."
*Economic Freedom of the World: 2024 Annual Report, p77 (appendix)*

that the increase in the money supply has been relatively controlled. Here South Africa performs well by international standards, where central banks around the world have engaged in high levels of money printing, particularly during the Covid-19 pandemic.

In the area of the *Standard deviation of inflation*, which measures price volatility, South Africa also scores relatively well, consistently scoring above 9.20 for the past 20 years. This has meant that price growth has been mostly constant, which helps businesses and individuals to plan and budget accordingly. As an individual making price calculations into the future, relative certainty in relation to price growth is beneficial for planning purposes.

However, in the sub-category of *Inflation* we see that South Africa performs poorly compared to the other sub-indicators, down from 7.93 in 2017 to 7.18 in 2022 (the latest data in the index). As shown in Figure 10, inflation in South Africa has been above the global average for most of the past 15 years.

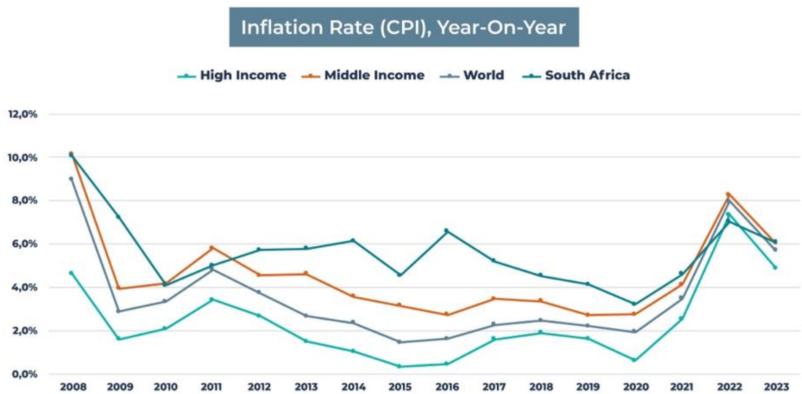


*Figure 10: South Africa and international inflation rates (CPI), y-o-y*

The consumer price index (CPI) increased by 2,8% in the 12 months to October 2024, down from 3,8% in September. This was the fifth consecutive month of rate declines, and the lowest figure since June 2020, when the rate was 2.2%.[9] Welcome news.

The SARB sets an inflation target range of between 3 and 6% with a midpoint objective of 4.5%. However, the Governor of the SARB, Lesetja Kganyago, has increasingly argued for a lower inflation band of 1-3%. This shows the Governor's awareness of the cost that inflation imposes on ordinary South Africans and that he appreciates his commitment to the constitutional mandate of the Reserve Bank (which we explore in the next section).

[9] Consumer inflation cools further in October, *Statistics South Africa,* 20 November 2024
https://www.statssa.gov.za/?p=17847

## Liberty First: Recommendations and proposed reforms

In light of the above sound money score, the following non-exhaustive recommendations have been proposed in order to promote sound money regime in South Africa.

### Curb inflation

*"Inflation is always and everywhere a monetary phenomenon, in the sense that it is and can be produced only by a more rapid increase in the quantity of money than in output."*
~ Milton Friedman (1964)

#### *The mandate of the SARB*

The SARB performs many functions, including issuing bank notes and coins, managing gold and foreign exchange reserves, supervising the financial services sector, and acting as a lender of last resort. However, this paper will focus on the SARB's principal function, which is to formulate and implement monetary policy in South Africa.

Section 224(1) of the Constitution states that the primary object of the SARB is to "protect the value of the currency in the interest of balanced and sustainable economic growth in the Republic."[10]

Although the SARB is considered among the more well-governed public institutions in the country, the fact remains that South Africa's inflation target is still unacceptably high. Yes, price stability is better than price volatility. But ultimately inflation – however stable it might be – represents a perpetual degradation of the purchasing power of the currency.

Speaking to the Bank's decision to lower rates in its October 2024 statement, Governor Kganyago was quoted as saying: "You've got to

[10] Constitution of the Republic of South Africa, s224 (1) https://www.gov.za/documents/constitution/constitution-republic-south-africa-1996-chapter-13-finance-07-feb-1997#223

be cautious. Adventurism is not part of our monetary policy toolkit."[11] This type of conservative approach to monetary policy should be applauded. The fact that headline inflation rate was 2.8% in October 2024 speaks to considerable progress from the recent high of 7.6% in 2022, as shown in Figure 11. However, when zooming out, we see that the long-term impact of persistent inflation.

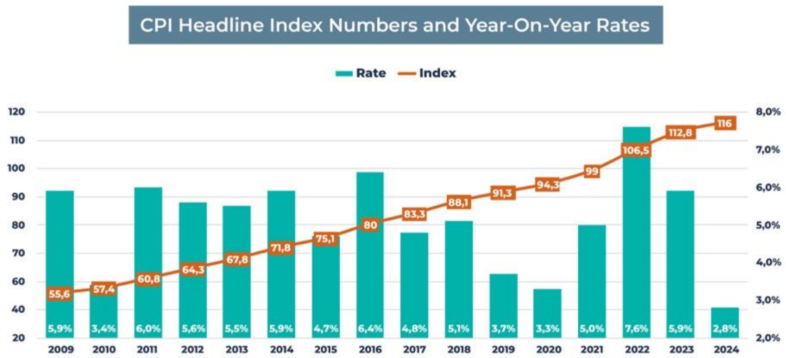


*Figure 11: CPI headline index numbers and year-on-year rates*[12]

Figure 11 shows how the inflation index has increased over time, from 55.6 in 2009 to 116 in 2024. This shows the compounding effect of how inflation erodes economic value over time.

Therefore, if the SARB were to truly honour its constitutional mandate, then the real inflation target should in fact be zero. There is no real reason for the value of the rand to degrade every single year at a consistent rate. At the very least, it should hold its parity, and

[11] 'Inflation: Kganyago not declaring victory yet' *Business Day*, 26 September 2024 https://www.businesslive.co.za/fm/features/2024-09-26-inflation-kganyago-not-declaring-victory-yet/

[12] 'P0141 - Consumer Price Index (CPI), October 2024', *Statistics South Africa*, 20 November 2024 https://www.statssa.gov.za/?page_id=1854&PPN=P0141&SCH=73825

monetary policy should be geared toward reducing inflation as far as possible.

**The South African Reserve Bank should adjust the inflation target from the current range of 3-6% down to 0-3%.**

Even *deflation* should be embraced (or at least we should not be as concerned about it). For as technology and production techniques improve, we should naturally expect prices to reduce. Deflation is a sign of greater efficiency.

***How inflation disproportionately impacts the poor***

Low-income South Africans are disproportionately affected by inflation. Middle class and wealthy South Africans are certainly impacted by rising prices, but they are also more insulated than people with a low income. Many relatively well-off people have their savings tied up in other assets such as equities or property, which tend to appreciate with inflation. Poor people, on the other hand, are dependent on cash, which loses its purchasing power more quickly.

Given that many poor people also lack access to formal bank accounts, this also incentivises short term consumption over long-term savings. The rapidly diminishing value of the currency means that the poor develop a high time preference, preferring to spend whatever they have as quickly as possible, rather than saving for tomorrow.

Most of the meagre incomes of low-income South Africans goes towards food and transportation. Therefore, any increases in these expenditure categories disproportionately impact the poor. As shown in Figure 12, annual food and non-alcoholic beverages (NAB) inflation in 2022 was 13.4%, nearly double the CPI headline inflation of 6.9%.[13]

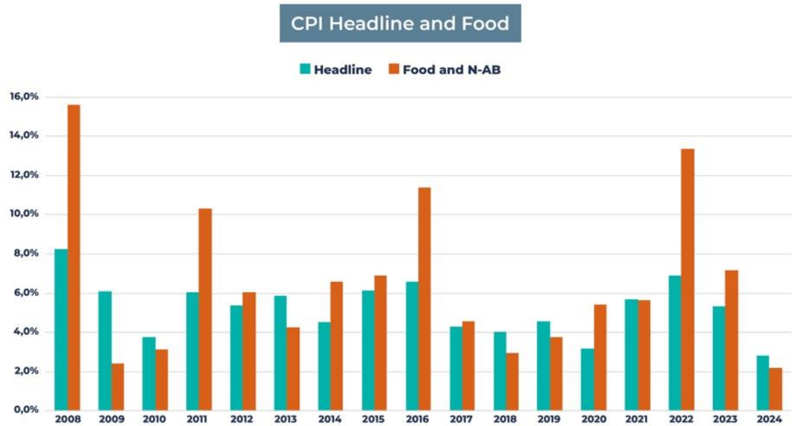


*Figure 12: CPI Headline and Food*[14]

To put this in perspective, imagine having 100 eggs in a basket. Now take five of these eggs and throw them on the floor (and repeat this exercise every year). This is the toll of inflation on ordinary South Africans: it destroys value and gradually erodes living standards.

**Amend the Reserve Bank Act to strengthen the emphasis on the Bank's core mandate to protect the value of the currency, even if that comes at the expense of other concerns of public interest.**

[13] 'P0141 - Consumer Price Index (CPI), October 2024', *Statistics South Africa*, 20 November 2024 https://www.statssa.gov.za/?page_id=1854&PPN=P0141&SCH=73825

[14] 'P0141 - Consumer Price Index (CPI), October 2024', *Statistics South Africa*, 20 November 2024 https://www.statssa.gov.za/?page_id=1854&PPN=P0141&SCH=73825

### *Other drivers of inflation*

Beyond monetary policy, administered prices also contribute to increases in the cost of living. For example, fuel prices in South Africa include a government-applied general fuel levy (GFL) of R3.96 and a Road Accident Fund (RAF) levy of R2.18.[15] These levies, together with rand weakness, have made the fuel price a key driver of inflation. As of 6 November 2024, the price of a litre of unleaded 95 petrol is R21.30, up 61.85% from R13.16 in November 2014.[16]

These costs are not only borne by road users, but also by consumers more broadly. While important, monetary policy is not the only variable determining inflation.[17]

## Strengthen central bank independence in South Africa

Central bank independence is not explicitly measured in the EFW scoring, but this is typically seen as an indicator of the robustness of a monetary regime.

### *The structure of the SARB*

The SARB was established in 1921, making it the oldest central bank in Africa[18] and the fourth oldest central bank outside of Europe.[19] The

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[15] 'South Africa's R366 petrol price pain', *MyBroadband*, 05 November 2024 https://mybroadband.co.za/news/motoring/568172-south-africas-r366-petrol-price-pain.html

[16] Ibid.

[17] See here for further analysis of how state interference reduces economic competitiveness: 'Liberty First: Regulation', *Free Market Foundation*, November 2024 https://freemarketfoundation.com/wp-content/uploads/2024/11/Morne-Malan-Liberty-First-Regulation.pdf

[18] South African Reserve Bank – History https://www.resbank.co.za/en/home/about-us/history#

[19] 'Who really owns the South African Reserve Bank', *Daily Investor*, 25 August 2023 https://dailyinvestor.com/finance/28528/who-really-owns-the-south-african-reserve-bank/#

SARB is one of only nine central banks in the world to have private shareholding.[20]

The SARB has more than 800 shareholders,[21] with shares "traded on an over-the-counter share transfer facility (OTCSTF) market coordinated within the Bank." Shareholders have some governance powers, such as the appointment of directors and auditors, although certain limitations apply.[22]

The President is empowered by the South African Reserve Bank Act of 1989 to appoint the Governor along with three Deputy Governors and four Directors. Section 4(1)(a) of the Act states that:

> "The Bank shall have a board of fifteen directors, consisting of a Governor and three Deputy Governors (of whom one shall be designated by the President of the Republic as Senior Deputy Governor) who shall be appointed by the President of the Republic, after consultation with the Minister and the Board, as well as four other directors appointed by the President, after consultation with the Minister."[23]

**When appointing members to the board of the Reserve Bank, the President should favour those candidates who prefer a clear, rules-based approach to monetary policy, which limits the discretion of the Monetary Policy**

[20] Ibid.
[21] South African Reserve Bank – SARB shareholders https://www.resbank.co.za/en/home/about-us/shareholder-information#
[22] For example, only shareholders who reside in South Africa are entitled to vote at the AGM and they are allowed one vote for every 200 shares held. In addition, "no shareholder shall hold, or hold in aggregate with his, her or their associates, more than 10 000 of the total number of 2 000 000 issued shares."
South African Reserve Bank – SARB shareholders https://www.resbank.co.za/en/home/about-us/shareholder-information#
[23] South African Reserve Bank Amendment Act 4 of 2010 https://www.gov.za/sites/default/files/gcis_document/201409/a4-2010.pdf

**Committee to provide greater predictability and trust to economic actors.**

The SARB is also comprised of various committees, which establishes formal structures of consultation between the Bank and market participants. These include the Financial Markets Liaison Group (FMLG),[24] the South African Foreign Exchange Committee (SAFEC),[25] and the Market Practitioners Group (MPG).[26] Consideration of these prudential functions is beyond the scope of this paper but suffice to say that the Bank engages regularly with market participants.

### *How independent is the SARB?*

The independence of the SARB is constitutionally guaranteed. Section 224(2) of the Constitution states that the SARB, in support of its primary objective of protecting the value of the currency, must "perform its functions independently and without fear, favour, or prejudice."[27]

However, that same clause also states that there should be "regular consultation between the Bank and the Cabinet member responsible for national financial matters."

Moreover, the Bank also participates in the Standing Committee on Banking and Financial Markets, a joint committee of the SARB and

[24] A consultative forum established as a joint initiative between the SARB and key participants in the financial markets.
[25] A forum representing industry-wide key market professionals involved in the wholesale foreign exchange market under the sponsorship and leadership of the SARB.
[26] To make the final decisions on the choice of interest rate benchmarks to be used as reference interest rates for financial and derivative contracts.
[27] Constitution of the Republic of South Africa, s224 (2) https://www.gov.za/documents/constitution/constitution-republic-south-africa-1996-chapter-13-finance-07-feb-1997#223

National Treasury to deliberate on issues relating to financial markets, banking, public debt management, and foreign exchange reserves.[28]

Whilst "regular consultation" might seem to imply a symmetry of power between the central bank and the treasury, we must ask if this is strictly necessary given the SARB's independent mandate.

So far, South Africa's various ministers of finance throughout the democratic era have respected the tradition of SARB independence, but that does not mean that this cannot – or will not – change in future. "Consultation" could easily turn into "coordination" between the Bank and the executive, as it has done in other countries.

There is a risk that pressure might be brought to bear on the SARB by the executive to pursue a more expansionary monetary policy for the sake of political expediency. After all, politicians tend to be more sensitive to political considerations – such as election cycles or other ideological agendas – than they are to market forces.

By way of analogy, judicial independence is also enshrined in the Constitution. However, institutions like the Judicial Services Commission (JSC) give politicians disproportionate power relative to legal practitioners to determine judicial appointments, and to adjudicate complaints made against judges.

Under the guise of "transformation" judges have been selected based on irrelevant criteria such as race, gender, or their ideological commitments, rather than their knowledge of the law and its application. This has had the effect of diluting the autonomy of the judiciary and has reduced the independent mindedness of applicants to the Bench. A similar fate could befall the central bank in the absence of extreme vigilance.

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[28] 'Monetary and fiscal policy interactions in the wake of the Covid-19 pandemic', South African Reserve Bank (SARB) https://www.bis.org/publ/bppdf/bispap122_v.pdf

Much has been made of the so-called “State Capture” era that characterised the political regime of Jacob Zuma (2009 – 2018), where seemingly robust institutions with well-established internal rules like the South African Revenue Service (SARS) and National Treasury were easily captured by political actors seeking to exploit these bodies for corrupt financial or political ends.

These examples demonstrate that no institution is immune from political capture. Consequently, we should take steps to limit executive or legislative interference in the governance and decision-making of the SARB.

***Political threats to SARB independence***

Nationalisation of the SARB has been high on the policy agenda of leftist political groupings who wish to assert state power over South Africa’s monetary system. In 2018, leader of the Economic Freedom Fighters (EFF), Julius Malema, tabled a private member’s bill before the Standing Committee on Finance: the South African Reserve Bank Amendment Bill.[29] After lapsing and being reintroduced to Parliament several times,[30] the Bill was again brought before the Committee on 25 July 2024.

The Amendment Bill seeks, *inter alia*, to make the state the sole shareholder of the shares in the Bank and to empower the Minister of Finance to make appointments to the Board of Directors (instead of them being elected at an ordinary general meeting).[31]

Speaking to the Amendment Bill, EFF spokesperson, Leigh-Ann Mathys, noted that “without national control over the issuance of money, no amount of legislation would result in the transfer of

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[29] South African Reserve Bank Amendment Bill
https://static.pmg.org.za/B26-2018_SA_Reserve_Bank.pdf
[30] The Bill lapsed in terms of National Assembly rule 333(2)
Parliamentary Monitoring Group, ‘South African Reserve Bank Amendment Bill - Mr J Malema (EFF) (B26-2018)’,
https://pmg.org.za/bill/826/
[31] South African Reserve Bank Amendment Bill
https://static.pmg.org.za/B26-2018_SA_Reserve_Bank.pdf

ownership."[32] The intention here is clear: to ensure greater centralisation and control over monetary policy in South Africa by revising the SARB's mandate in favour of a more expansionary monetary framework, thereby using the Bank to pursue the political objectives of "transforming" the financial sector.

While the EFF is only the fourth largest party in the National Assembly – with 39 seats (9.86% of the total of 400 seats)[33] – support for a revision of the SARB's ownership also extends to other parties.

The African National Congress (ANC) deliberated on the status of the Reserve Bank at its 55th National Congress in December 2022. While the ANC affirmed the importance of price stability for sustainable economic growth, it did call for an end to the "historic anomaly" of private ownership of the SARB – with the caveat that this "must be undertaken in a manner that does not enrich speculators or overburden the fiscus".[34]

Although the ANC conference resolved to reaffirm the constitutional independence of the SARB, it also noted that the central bank "should implement monetary policy *in a balanced manner*, taking into account growth, employment, and exchange rate factors" (italics added).[35] This echoed previous conference resolutions, such as the 54th National Conference (2017), which called for 100% ownership of the SARB by the state.

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[32] EFF statement on the briefing by Parliamentary Budget Office on the nationalization of the SARB, *PoliticsWeb*, 11 September 2024 https://www.politicsweb.co.za/documents/talks-on-nationalisation-of-sarb-welcomed--eff#:~:text=The%20bill%2C%20introduced%20in%202018,interests%20of%20a%20privileged%20few

[33] Parliament of the Republic of South Africa – National Assembly https://www.parliament.gov.za/national-assembly

[34] African National Congress 55th National Congress Resolutions – Economic Transformation, p.5 https://www.anc1912.org.za/wp-content/uploads/2023/02/ANC-55th-Conference-Resolutions-Economic-Transformation.pdf

[35] Ibid, p.5

This raises the question that if the ANC is satisfied with central bank independence, why should it be bothered by the existence of private shareholders (however "anomalous" they might be)? And if the SARB enjoyed true independence, then the ANC should not be calling for a more "balanced" monetary policy.

Moreover, such a policy would in and of itself represent a significant deviation from the current regime. Once the SARB is forced to balance price stability with other considerations such as growth, employment and other factors then the Bank would necessarily have to subordinate stability in favour of other outcomes in the short-term. This would lead to very damaging long-term economic results.

Also at its December 2022 conference, the ANC resolved to establish and capitalise a state bank.[36] This reveals an ideological disposition towards state involvement in the financial services sector and a desire to use state ownership to drive interventionist policy objectives. The potential threats posed by a state bank could, given the entrenched nature of the central bank's mandate, far outweigh any attempts to unduly influence the bank directly.

A state bank, which employs lax restrictions on its lending policies, presents enormous risks to the currency and overall economic well-being – especially if the SARB is forced to accommodate such an irresponsible approach to extending credit.

The upshot is that a desire to use monetary policy as an instrument for affecting growth or employment implies a willingness to control the money supply to achieve specific outcomes which are *political* in nature and not exclusively economic.

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[36] African National Congress 55th National Congress Resolutions – Economic Transformation, p.6 https://www.anc1912.org.za/wp-content/uploads/2023/02/ANC-55th-Conference-Resolutions-Economic-Transformation.pdf

**Amend the Reserve Bank Act to create additional degrees of separation between the Bank and the executive.**

This should be read against the global backdrop of so-called Modern Monetary Theory (MMT), of which many in the ANC economic policy are sympathetic. MMT theorists postulate that governments that issue their own currencies do not need to be constrained by taxation or borrowing, as they can simply print more of their currency to finance increased public expenditure.[37] MMT sees an expanded role for monetary policy which (hubristically) believes that the threat of inflation could be curbed by raising taxes.

As Busisiwe Mavuso, CEO of Business Leadership South Africa, notes:

> "[South Africa] is a struggling emerging market with high debt – junk-rated – and fighting endemic corruption, and the consequences [of] monetary policy adventurism would be severe, particularly for the poor who will suffer the most from the skyrocketing inflation that results."[38]

### *Curtailing the threat of fiscal dominance*

Beginning with the Global Financial Crisis (GFC), and later exacerbated by the Covid pandemic, there has been a rising trend of what economist Lyn Alden has termed "fiscal dominance" where governments run structurally high fiscal deficits financed by increased government borrowing over a long period of time. As Alden notes:

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[37] Investopedia, 'Modern Monetary Theory (MMT): Definition, History, and Principles' https://www.investopedia.com/modern-monetary-theory-mmt-4588060#

[38] Busisiwe Mavuso, 'It's no use blaming the Reserve Bank for rate hikes', Business Leadership South Africa, 22 July 2022 https://blsa.org.za/thought-leadership/why-modern-monetary-theory-wouldnt-work-for-sa-rates/

> "This means that fiscal deficits are larger and more impactful for the economy and for financial markets than they used to be, and at inflection points they can even impair the effectiveness of the central bank's monetary policy or outright constrain the central bank's ability to make certain monetary policy decisions independently."[39]

Consequently, governments around the world have pressured central banks into buying government bonds and other securities through programmes of so-called 'Quantitative Easing' (QE). This is particularly prevalent during financial crises, when panic is widespread and calls for government intervention grow.

The SARB, for the most part, has resisted calls to purchase government assets (with a brief exception during the Covid pandemic, where it bought R30 billion worth of government bonds and cut interest rates by 300 basis points).[40]

### *Free banking*

However independent the SARB may claim to be, it still has the status of being a state institution, and institutions of state are not immune to pressures imposed upon them by outside actors, be it for political reasons or matters of short-term economic expedience.

Furthermore, whilst the present occupants of the MPC have, on the whole, acquitted themselves well, a system as complex and important as monetary policy must also be able to endure when it is managed by less capable individuals.

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[39] 'Why Nothing Stops This Fiscal Train' *Lyn Alden Investment Strategy*, 8 September 2024
https://www.lynalden.com/september-2024-newsletter/

[40] 'It's no use blaming the Reserve Bank for rate hikes', Busisiwe Mavuso, Business Leadership South Africa, 22 July 2022
https://blsa.org.za/thought-leadership/why-modern-monetary-theory-wouldnt-work-for-sa-rates/

At the end of the day, central banks are backed by the coercive power of the government. As senior FMF consultant, Richard J Grant, argues:

> "Though some central banks might have deposit and asset management functions, and regulatory powers, the essential feature that makes them central banks is their monopoly control over supply of the national currency. Despite pretensions of independence, all central banks are creatures of government. Their superpowers are an extension of government power, and their currency monopolies are rarely, if ever, natural."[41]

The SARB might have an institutional culture of independence, but central banks are never truly sovereign, as Grant rightly states. We should therefore remain wary of the ever-present risk of government interference in the money supply.

One way of overcoming the risks inherent to central banking is by allowing the free exchange of money to take place and for banks to issue their own currency in a free and open market.

"Free banking", while not often discussed in the contemporary South African context, was the system that characterised South Africa from roughly 1837 until the establishment of the SARB in 1921. Under this system, commercial banks such as Standard Bank and the National Bank of South Africa issued notes bearing the issuing bank's name.[42] However, this was during a period when money was still linked to the gold standard and paper money issued by banks was convertible to gold specie.

Returning to a gold standard might not be possible in today's highly liquid, globally connected financial system. However, a new form of "digital gold" could enable the emergence of a new monetary system

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[41] Grant, R., 'Making inflation transitory again' *Business Day*, 1 September 2024 https://www.businesslive.co.za/bd/opinion/2024-09-01-richard-j-grant-making-inflation-transitory-again/

[42] 'Is central banking the best monetary regime for South Africa?', FMF Monograph No. 40, *Free Market Foundation*, Marueen Bader and Zane Spindler, July 2005.

which does not rely on central banks or government monopoly control of the money supply. We explore this topic in the final section of the paper.

## Embrace the future of money

Although 56% of transactions in South Africa today are still conducted in physical cash, digital payments are steadily on the rise.[43] Credit cards, electronic fund transfers (EFTs), mobile money, and contactless payments are now commonplace. However, these digital transactions are still denominated and settled in rand.

But a new form of digital money is set to fundamentally change the way money is used globally, and South African monetary authorities would be wise to anticipate and embrace these trends.

In this section, we explore the worldwide emergence of Bitcoin as a viable medium of exchange, as well as a long-term store of value. We discuss Bitcoin as "state-proof" money, and how the asset is overcoming institutional resistance in other jurisdictions. We then propose how policymakers in South Africa should be responding to this phenomenon.

### *The emergence of Bitcoin*

Unlike fiat currencies, which are the creations of national governments, Bitcoin is an entirely decentralised peer-to-peer digital payment system and currency.

Bitcoin is borderless money that exists on a globally accessible distributed ledger (a public blockchain network). Anybody with an internet connection, anywhere in the world, can view this ledger and send Bitcoin over the network.

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[43] 'Are South Africans ready for the digital payment revolution?', *Moonstone Information Refinery*, 19 September 2024 https://www.moonstone.co.za/are-south-africans-ready-for-the-digital-payment-revolution/

One way of viewing Bitcoin is as the world’s first public digital payments infrastructure. This infrastructure is available to all but not owned by a single person or entity. With Bitcoin, there are no trusted third parties or intermediaries to rely upon – only the network itself.

The public ledger enables users to verify the authenticity of transactions. Network users can validate transactions by running a “node” using open-source software. The ability for transactions to be verified by users on the blockchain, means that Bitcoin avoids the so-called “double spending” problem associated with other digital currencies. The blockchain acts as a permanent unalterable record of all transactions, which gives Bitcoin the quality of immutability.

There is no central bank responsible for the issuance of new money. New supply is created when blocks are “mined” (a new block is mined on average every ten minutes). Miners are rewarded with new Bitcoins by expending energy on solving computational proofs. Supply growth is constant, halving roughly every four years. Critically, the Bitcoin supply is finite. There will only ever be 21 million Bitcoins in the entire system.

For these reasons, Bitcoin is immune from the temptations of rampant money printing that have characterised central banking systems since the United States formally abandoned the gold standard in 1971. Bitcoin thus avoids the pitfalls of monetary debasement associated with most fiat currencies.

***State-proof money***

Because of its decentralised and immutable characteristics, Bitcoin is the first property right in history that is not dependent on the state's monopoly on violence. It represents no less than the separation of money and state, with profound implications for monetary freedom.

Unlike other digital currencies, the creator of Bitcoin, “Satoshi Nakamoto”, is entirely anonymous. Consequently, there is no central actor for government authorities to coerce or punish. Since Bitcoin exists outside of the permissioned banking system, it is also censorship resistant and has the potential to strengthen civil liberties in the face of government overreach and control.

Governments have tried to restrict or ban their citizens from using Bitcoin, but they cannot stop transactions from occurring on the system. Even outright bans on Bitcoin usage (as happened in the People's Republic of China) did not pose an existential threat to the system.

Digital banking has made life a lot easier, but it has also extended the power of governments to survey citizens and even to punish dissent by cutting off access to bank accounts and other payment rails. Before his death, the late Russian dissident, Alexy Navalny, was able to raise substantial Bitcoin funding after Vladimir Putin's regime locked Navalny and his organisation, the Anti-Corruption Foundation, out of traditional bank accounts and other payment channels.[44]

Even in established democracies, the threat of financial surveillance and control has grown. In 2022, widespread protests against Covid-19 vaccine mandates took place across Canada. After activists began raising substantial funds in support of their campaign, the Canadian government swiftly shut down crowdfunding platforms like GoFundMe, choking off the protestors' funding sources. However, activists were able to successfully pivot to Bitcoin as a way of bypassing authorities and continuing their campaign.

The fact that states can act in this way demonstrates a clear use-case for Bitcoin. As macro strategist, Rob Price, warns: "If you think your government wants to ban Bitcoin, then you need it more than you think."[45]

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[44] 'Bitcoin donations surge to jailed Kremlin critic Navalny's cause: data', Reuters, 12 February 2021 https://www.reuters.com/article/world/bitcoin-donations-surge-to-jailed-kremlin-critic-navalnys-cause-data-idUSKBN2AB2GR/

[45] Rob Price, 'Why you shouldn't be worried about a Bitcoin ban,' *Bitcoin Magazine*, 5 May 2021 https://bitcoinmagazine.com/culture/why-governments-cant-ban-bitcoin

### *Growing institutional acceptance*

Many governments and institutional investors have seen Bitcoin as a threat and something not to be trusted.

In 2018, Warren Buffet of Berkshire Hathaway dismissed Bitcoin as "rat poison squared".[46] In May 2022, the President of the European Central Bank, Christine Lagarde, warned that Bitcoin is "worth nothing," adding that "there is no underlying asset to act as an anchor of safety."[47]

However, increased adoption and acceptance by traditional financial institutions has seen a growing recognition of Bitcoin as a legitimate asset class by policymakers and mainstream investors.

For example, on 10 January 2024, the US Securities and Exchange Commission (SEC) approved the first 11 Bitcoin spot Exchange Traded Funds (ETFs) in the United States.[48] Blackrock, the world's largest asset manager, launched its first Bitcoin ETF that same month. As of 8 November 2024, Blackrock's iShares Bitcoin Trust ETF had accumulated US$ 34.3 billion of assets under management, putting it ahead of Blackrock's gold ETF, the iShares Gold Trust (IAU) at just under US$33 billion.[49] Blackrock CEO, Larry Fink, once a Bitcoin sceptic, has become one of its most energetic cheerleaders.

There has been a flood of new investment in Bitcoin as an asset class. As of 22 November 2024, the total market capitalisation of Bitcoin sat

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[46] 'If You Invested $1,000 In Bitcoin When Warren Buffett Called It 'Rat Poison Squared,' Here's How Much You'd Have Now,' *Nasdaq,* 31 October 2023 https://www.nasdaq.com/articles/if-you-invested-%241000-in-bitcoin-when-warren-buffett-called-it-rat-poison-squared-heres

[47] 'Christine Lagarde says crypto is worth nothing' *CNBC*, 23 May 2022 https://www.cnbc.com/2022/05/23/ecb-chief-christine-lagarde-crypto-is-worth-nothing.html

[48] 'Spot Bitcoin ETFs: Everything You Need to Know,' *Investopedia* https://www.investopedia.com/spot-bitcoin-etfs-8358373#

[49] 'The iShares Bitcoin ETF is now bigger than its gold counterpart following rush into crypto on Trump win', *CNBC*, 11 November 2024 https://www.cnbc.com/2024/11/11/the-ishares-bitcoin-etf-is-now-bigger-than-its-gold-counterpart-following-rush-into-crypto-on-trump-win.html

at US$1.9 trillion, making it the seventh largest asset globally by market capitalisation. See Table 3.

| Rank | Name | Market Cap | Price |
|---|---|---|---|
| 1 | Gold | $18.253 T | $2,718 |
| 2 | NVIDIA | $3.476 T | $141.95 |
| 3 | Apple | $3.474 T | $229.87 |
| 4 | Microsoft | $3.100 T | $417.00 |
| 5 | Amazon | $2.072 T | $197.12 |
| 6 | Alphabet (Google) | $2.028 T | $166.57 |
| **7** | **Bitcoin** | **$1.932 T** | **$97,693** |
| 8 | Saudi Aramco | $1.802 T | $7.45 |
| 9 | Silver | $1.767 T | $31.40 |
| 10 | Meta (Facebook) | $1.767 T | $31.40 |

*Table 3: Top 10 assets by market capitalisation*[50]

International accounting frameworks are also adapting, with the Financial Accounting Standards Board (FASB) recently updating its accounting standards for Bitcoin and other crypto assets.[51]

### *Changing the regulatory paradigm*

US President-elect, Donald Trump, was a vocal supporter of Bitcoin on the campaign trail, promising at a Bitcoin conference in Nashville, Tennessee, on 27 July that he would create a "national bitcoin

[50] Source:
https://companiesmarketcap.com/assets-by-market-cap/

[51] 'New FASB Rule Supercharges Bitcoin Asset Integration In Corporate Finance', *Forbes*, 20 December 2023
https://www.forbes.com/sites/digital-assets/2023/12/20/new-fasb-rule-supercharges-bitcoin-asset-integration-in-corporate-finance/

stockpile" and make the US "the crypto capital of the planet and the bitcoin superpower of the world."[52]

This is in stark contrast to the outgoing Biden administration, which has been overtly hostile to Bitcoin. Notably, President Joe Biden rejected bipartisan legislation that would have enabled banks and other financial institutions to custody Bitcoin.[53] Following Trump's victory, the price of Bitcoin surged to a record of US$ 98,997 on 22 November. SEC Chairman, Gary Gensler, an ardent antagonist of Bitcoin, has already indicated that he will step down when Trump is inaugurated in January 2025.[54]

The "Red Wave" on 5 November also saw Republicans taking control of both the House of Representatives and the Senate. This paves the way for more pro-Bitcoin legislation. Wyoming senator, Cynthia Lummis, has proposed a law that would initiate a Bitcoin purchase programme which would see the United States purchase 200,000 Bitcoins per year over five years (BTC 1,000,000 total) with the aim of building a "strategic Bitcoin reserve".

Senator Lummis argues that the Federal Reserve could sell gold reserves to finance these purchases and therefore avoid incurring further US dollar-denominated sovereign debt.[55] Given Bitcoin's growth trajectory, such a move would potentially help to reduce the

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[52] 'Bitcoin volatile after Trump says US will be 'crypto capital of the planet'', Business Insider, 29 July 2024 https://markets.businessinsider.com/news/currencies/bitcoin-price-reaction-trump-us-crypto-capital-planet-comments-impact-2024-7

[53] 'Why Joe Biden Hates Bitcoin,' *Nasdaq,* 06 June 2024 https://www.nasdaq.com/articles/why-joe-biden-hates-bitcoin

[54] Gary Gensler to leave role as SEC chairman, *BBC,* 21 November 2024 https://www.bbc.com/news/articles/c20nyxperjpo

[55] 'The Fed should sell its 70s-era gold stockpile and buy bitcoin to establish a crypto reserve, Sen. Cynthia Lummis says', *Markets Insider*, 21 Nov 2024 https://markets.businessinsider.com/news/currencies/fed-sell-gold-buy-bitcoin-reserve-crypto-cynthia-lummis-btc-2024-11

federal government's growing debt burden of US$ 36 trillion[56] and position the US as the global leader in cryptocurrency innovation.

In South Africa, sovereign debt is set to rise to 75.5% of GDP or R6.05 trillion in 2025/26. This unsustainable debt burden represents a risk to the long-term stability of the national accounts. One way of mitigating this risk is for South Africa to become an early adopter of Bitcoin and for the national government to develop its own strategic reserve. This will give the South African state greater sovereignty over its national finances and de-risk the rand.

**The SARB and National Treasury should take steps to acquire a strategic Bitcoin reserve for South Africa.**

In a presentation on 15 November 2024, co-founder and chairman of MicroStrategy, Michael Saylor, noted that regulators should be responding to Bitcoin in the following ways:[57]

- Define digital asset classes.
- Set sound ethical, economical, and technical guidelines.
- Provide practical legal method to issue, own, and operate digital assets.

While these remarks were made in respect of US regulation, the same principles could apply to the South African context.

South Africa is uniquely positioned given its relatively liquid financial markets, and sophisticated services-orientated economy to be a leader in Bitcoin adoption in sub-Saharan Africa. However, South Africa still has some catching-up to do with Nigeria, which, despite

[56] Peter G. Petersen Foundation, accessed on 24 November 2024 https://www.pgpf.org/national-debt-clock/

[57] 'Bitcoin, The Red Wave, and The Crypto Renaissance - Michael Saylor Speaks at Cantor Fitzgerald,' *YouTube,* 15 November 2024 https://youtu.be/4LqpGrWGNqE?si=FI293wv1uWxLpeEn

hostile regulation, is in the top ten countries for Bitcoin adoption worldwide, with over 8.6 million Bitcoin users.[58]

**Provide legislative clarity on the status of cryptocurrencies such as Bitcoin as legitimate mediums of exchange and revoke any provisions that constitute unreasonable and onerous burdens on the market.**

South Africa should also follow in the footsteps of El Salvador and make Bitcoin legal tender. This will send a strong signal to the market that South Africa is serious about embracing this new technology and could potentially provide the basis for the emergence of an ecosystem of technological innovation around Bitcoin.

[58] 'Bitcoin Adoption by Country In 2024: A Global Overview', *Plasbit,* 9 July 2024 https://plasbit.com/blog/bitcoin-adoption-by-country

## Conclusion

FA Hayek, the renowned Austrian School economist, warned about the failures of monetary policy and the need to "de-nationalise" money. His words in 1984 foreshadowed the development of digital currencies:

> "I don't believe we shall ever have a good money again before we take the thing out of the hands of government, that is, we can't take it violently out of the hands of government, all we can do is by some sly roundabout way introduce something that they can't stop."[59]

This policy paper sought to provide recommendations to policymakers in the post-2024 government to enable sound money. South Africa's central bank and its independent status has enabled relative price stability in the democratic era, but more needs to be done lower the burden of inflation and protect the independence of the bank.

However, as Hayek observed, if we are to preserve the integrity of the monetary system, then we need to end our dependence on central banks and discontinue the government's control of the money supply. A central bank is ultimately the creation of the state and represents a significant concentration risk, a honey pot that malevolent political actors could easily capture.

The dire consequences of monetary debasement for the economic welfare of all South Africans demands that we remain vigilant against any threats to the soundness of money, specifically inflation and central bank interference. However, the best way to avoid the inevitable tragedy of monetary debasement is to embrace the hardest money of them all: Bitcoin.

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[59] Friedrich August von Hayek predicting Bitcoin in 1984 A Sly Roundabout Way, *YouTube*, 1 January 2023 https://www.youtube.com/watch?v=CBIidtaUCzs

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