Growth Engines of the South?
South Africa's, Brazil's and Turkey's market constellations in comparison

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Abstract
The world is experiencing its worst recession in 80 years. What started as US sub-prime financial turmoil has developed into the first global recession since the infamous 'Great Depression' of the early 1930s. However gloomy the perspectives for the very short term are, there will be a recovery eventually. South Africa, Brazil and Turkey (SABT) are among those countries that may be expected as emerging market economies (EME) not only to continue to converge towards per-capita income levels of highly developed nations but also to be the best candidates – next to China and India – of serving as the locomotives of world GDP- and trade growth after the depression. Of course, whether SABT are not merely potentially in a position to create a brighter future for their people and the world economy but can transform such potentials into reality, depends on economic governance pursued by governments and collective actors in these countries. Therefore, it appears interesting to inquire into the macroeconomic governance structures of SABT in order to assess their capabilities for enhancing growth and employment and to converge to the OECD average in the medium to long run.

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I. Introduction – Global growth engines for 'After-Depression' times?

The world is experiencing its worst recession in 80 years. What started as US sub-prime financial turmoil has developed into the first global recession since the infamous 'Great Depression' of the early 1930s: In 2009, world-wide GDP is expected to fall by 2 – 3%, unemployment will mount and international trade contracts for the first time in decades. However gloomy the perspectives for the very short term are, there will be a recovery eventually (see e.g. OECD 2009).

South Africa, Brazil and Turkey (SABT) are among those countries that may be expected as emerging market economies (EME) not only to continue to converge towards per-capita income levels of highly developed nations (or, in the measurement of the World Bank, from upper-middle to high income economies) but also to be among the best candidates – next to China and India – of serving as the locomotives of world GDP- and trade growth after the depression[1]. Of course, whether SABT are not merely potentially in a position to create a brighter future for their people and the world economy but can transform such potentials into reality, depends – among other things[2] – on economic governance pursued by governments and collective actors in these countries. Therefore, it appears interesting to inquire into the macroeconomic policies pursued by SABT in order to assess their capabilities.

South Africa, Brazil and Turkey also share some common features in their recent past: All three countries had to cope with extreme economic distortions and political unrest. While South Africa was economically marginalised in world trade for a considerable period of time during their miserable Apartheid regime, Brazil has gone through a period of extreme or,

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[1] The United Nations University World Institute for Development Economics Research (UNU-WIDER) pursues research along the same lines in their 'Southern Engines of Global Growth' project; see e.g. Nayyar (2008).

[2] Among these other determinants of long-term growth being in control of politics are such factors as spending on education, research and development and the potential to enhance social capital; see e.g. Routledge/von Amsberg (2002).

rather, hyper-inflation. And Turkey experienced some time of high political and economic instability combining major output and inflation volatility (see e.g. Önis/Senses 2007). Almost at the same time, around the mid-1990s, all three countries underwent macroeconomic policy regime shifts in order to cope with these different challenges. Moreover, they also witnessed political regime shifts towards more populist – leftist in the case of South Africa and Brazil with the take-over of the ANC government after the end of Apartheid and the Lula administration respectively, more religious (yet less elitist) with the Erdogan governments in the case of Turkey – governments which aroused expectations of economic governance reforms in a direction different from the neoliberal mainstream dominant during the 1990s and the first decade of the 21st century – particularily as unemployment and income inequality in SABT were seen as most pressing policy issues on the agendas. However, in this case, the timing was different: From 1994 onwards, ANC took government, while Prime Minister Erdogan took Office in 2001 and President Lula da Silva in 2002.

Against this background, it appears worthwhile to take a closer look at the stances of economic governance of SABT in order to judge on their capabilities to become the world's economic steam engines in general and, more narrowly, whether the policy regime shifts of the past have been appropriate in this respect. This is even more pressing as most EME have taken on – sometimes deliberately, sometimes pressed by the IMF under the 'Washington Consensus' premise – the anglo-saxon 'neoliberal' governance orientation that has come under much criticism since the outbreak of the international financial crisis (see e.g. Saad-Filho 2005). At the end of this decade, other policy orientations (such as Keynesian-style macro-economic governance) are again thinkable (see e.g. Akerlof 2007). Moreover, there appears to be little dispute that SABT have been underperforming in terms of GDP growth as compared to similar EME such as China, Malaysia or India as much as compared to other periods in their history.[3] This poses the immediate question whether there are common, systematic governance failures to be detected? A prominent candidate is the monetary policy of 'Inflation Targeting' (IT) which is often seen as deterrent to higher growth particularly in EME[4] – and South Africa, Brazil and Turkey all turned towards IT at around the turn of the millenium. Or is the famous balance-of-payments constraint known as Thirlwall's law (see

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[3] See e.g. Cassim (2004), Barbosa-Filho (2008), Auer/Popova (2003).

[4] See e.g. Eichengreen (2002), Epstein/Yeldan (2008), Cordero (2008). A different view is given by Goncalvez/Salles (2008).

e.g. Dutt 2002) to be blamed? Rather than focussing on just one line of argument, this paper takes a more comprehensive view by pointing to the interrelatedness of different interdependent macroeconomic policy fields and their institutional embeddedness as has been done in recent work constituting Post Keynesian market constellation research.[5]

The paper is structured as follows: in part II, the theoretical foundation of the Post Keynesian market constellations approach is briefly exposed. Thereafter, in part III the SABT countries will be portrayed with respect to their institutional set-up supporting respective market constellations. These market constellations will be compared in part IV and comparative performance hypothesis thus derived will be empirically tested. In the final part V, conclusions for the outlook of the future SABT growth perspectives and pending institutional change will be dared.

II.   Macroeconomic policy regimes and economic outcomes: the Post Keynesian market constellation approach

A. Economic governance and the creation of market constellations

It is by now undisputed that institutional and regulative involvement in economic activities not only influences the allocation of production factors in an economy but can also systematically affect economic growth and employment development. This is especially true for a theoretical paradigm of economic activities that can explain long-term involuntary underemployment: Post Keynesianism.[6] The economic policy theory based on Post Keynesianism does not explain the short-term macroeconomic need for 'market repair', but instead describes a contingent result that contradicts the hydraulic and teleological notions of economic policy, those of the no longer popular standard Keynesianism, as well as those of the neoclassical mainstream (see Heise 2009). Whereas here, the impetus for every intervention is seen as a partial or temporary failure of the markets, the state is regarded as a

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[5] See e.g. Heise (2006), Heise (2008), Fritsche et al. (2005), Priewe/Herr (2005).

[6] Admittedly, Post Keynesianism does not represent a coherent school of thought, but there are some common characteristics that can be identified: an emphasis on uncertainty, an emphasis on money as a connection between the present and the future, a rejection of Walras' law of the markets, the importance of aggregate demand and the endogeneity of the money supply. Cf. Davidson (1994); Palley (1996) among others.

kind of opposing, "correcting third-party" by the market actors.[7] According to Post Keynesianism on the other hand, state intervention is not necessarily the result of a market failure, but rather due to the politically motivated desire to participate in the markets with the intention of altering market outcomes (for example, the employment rate or income distribution) in a certain pre-anounced way. Like every other market participant of adequate economic size, the state can certainly influence market outcomes, but its ability to steer them where it wants is limited. Depending on the reactions of market participants, quantity or price changes or arbitrary, difficult to predict combinations of quantity and price changes can appear.

The interplay of individual and collective market actors on the one side and the state actor on the other can be made more predictable through institutions and regulations. This makes it easier to plan while simultaneously reducing the haziness of the state's steering ability. Specific sets of institutions and regulations, combined with sustained market conditions (i.e. saturation level or valuation volatilities) and political orientations can be identified as market constellations[8]. These market constellations can be either friends or foes of growth and employment and inflation (as the most important policy targets), depending on how they influence expectations regarding future macroeconomic demand. Economic policy can not actually directly – teleologically – steer (real) economic growth and employment; it can only contribute to the creation or preservation of a market constellation that steadies and stabilizes the expectations of the economic actors and maintains a high level of macroeconomic demand if incentives are set adequately or, contrary to that, may become part of the problem, if institutional incentives favour a 'dysfunctional' market constellation.[9]

As demonstrated elsewhere (cf. Heise 2008), the macroeconomically oriented institutions, regulations, and governance structures described above exert their influence primarily on the

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[7] Which is why the image of the state as a repair shop is occasionally used.

[8] We are quite aware of the unfamiliarity of the notion of 'market constellation'. Some authors, instead, refer to 'regimes' (see Heine/Herr/Kaiser [2005]). In order to prevent confusion, we hold on to 'market constellation', as the notion of 'regime' has been used by the French 'Regulation School' and the American 'Social Structure of Accumulation School' in a different way.

[9] See Heise (2006); Heise (2008) and Heine/Herr/Kaiser (2005) for the defintion of 'dysfunctional' market constellations.

number of deployed production factors, making them especially important when examining extensive growth and employment trends.

Table 1: Unemployment and Inflation in Various Market Constellations

		Monetary Policy (and Fiscal Policy)			
		Low degree of Central Bank Independence (accommodating)	High degree of Central Bank Independence (non-accommodating)		
			,bold' ,tentative'		Cooperative
Wage Policy	**Cnetralised/ Coordinated**	*Stackelberg leadership of monetary policy* UNR: low INF: medium GROWTH: high	*Stackelberg Leadership of wage policy* UNR: medium – low INF: low GROWTH: medium – high	UNR: medium INF: low GROWTH: medium	*cooperative Nash equilibrium* UNR: low INF: low GROWTH: high
	Decentalised/ Non-coordinated	UNR: medium INF: high GROWTH: medium	*non-cooperative Nash equilibrium* ,Soskice case': UNR: medium – high INF: medium - low GROWTH: medium - low ,Calmfors-Drifill case': UNR: low – medium INF: low – deflationary GROWTH: medium – high		

Notes: UNR = Unemployment rate; INF = Inflation rate; GROWTH = GDP growth; for further explanations, see Heise (2006); Soskice case: strong unions at the company level ("local Pushfullness"; see Soskice 1990); Calmors-Drifill case: weak unions at the company level (see Calmfors/Drifill 1988)

If at least a short- to mid-term correlation exists between the labor market situation and nominal wage and price development, as postulated by both the original and modified Phillips curves, and if concurrently the postulated neutrality of fiscal and monetary policy is rejected as unrealistic[10], then pre-eminent importance will be given to the ability to coordinate the various macroeconomic policy fields and their autonomous actors. We know (cf. Nordhaus 1994; Heise 2001) that the macroeconomically most advantageous performance mix emerges through cooperation among the central bank, government, and collective bargaining parties (the so-called "cooperative Nash equilibrium").

On the other hand, if the macro-actors do not achieve cooperation, then the rationality trap will snap closed. This will lead to higher levels of unemployment (and correspondingly low levels of growth) and higher levels of inflation, despite the fact that a performance mix more beneficial to all parties was possible: the so-called "non-cooperative Nash equilibrium". If explicit cooperation is not feasible, yet the behavior of an actor can be predetermined, independent of the behavior of other actors (the so-called Stackelberg leadership), then one can expect performances that are better than in the non-cooperative situation but not as efficient as in the cooperative situation. The results of these definable market constellations are documented in Table 1 and are explained and described in more detail in Heise (2006) and Heise (2008). It should only be pointed out here that the three actor constellation cannot be adequately portrayed in a two-dimensional space. Therefore, fiscal policy is not explicitly accounted for; instead it is implied that it will support and/or disburden monetary policy when necessary. In the case of the non-accommodating monetary policy, a further distinction is made between a 'bold' and a 'tentative' central bank.[11] The empirically well-documented insight captured by this distinction is that some central banks respond symmetrically to inflationary and deflationary developments ('bold') while others respond decidedly

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[10] Recently, the American Nobel Prize winner George Akerlof (2007) convincingly did this, thereby marking the 'end of the After-Keynes era'.

[11] See Dullien (2006).

asymmetrically ('tentative'), meaning they immediately adopt restrictive measures when faced with inflationary developments but do not address deflationary developments with correspondingly expansive monetary policy.

B. Policy rules underlying different market constellations

Having established the institutional foundations of different market constellations and having pinpointed the criticality of cooperation among macroeconomic policy actors (*procedural norm*), the desired behaviour of the macroeconomic policy actors (*norms of content*) has yet to be exposed. As we have started off with a Post Keynesian approach to manifest market constellations, we will follow this line of argument in the elaboration of functional and dysfunctional policy regimes. Moreover, as market constellations can only be ascertained if the policy actors follow perceivable policy orientations as manifested in pre-announced rules, we will firstly expose some possible rules that have been established in the literature. Thereafter, a functional market constellation will be distingiushed by its normative and institutional requirements.

B. 1 Monetary policy rules

The end of the Keynesian era of economic policy-making after World War II was marked by Milton Friedman's (1968), Robert Lucas' (1972) and Robert Barro's (1974) critique on discretionary monetary and fiscal policy interventions. Friedman's monetary policy rule, which required the central banks to supply the economy with a quantity of money in accordance with the rate of change of GDP and the velocity of money, was not very successfull as the quantity of money is not an instrument variable itself but rather an intermediate target – which has often been missed by those central banks that allegedly followed a quantity rule.

Most prominent, however, is the monetary policy rule first published (and empirically tested) by John B. Taylor (1993): Inflation targeting. According to this rule, the central bank sets her interest rate with respect to weighed measures of output and inflation gaps whereby the weights reflect interest rate elasticity of wages and investment spending. Although this rule has gained far-reaching support summarised under the notion of the 'new consensus' and

seems to be adopted by most (independent) central banks (Clarida/Gali/Gertler 1998), Post Keynesians have repeatedly criticised the path-dependency of its major determinant: potential or trend output used as yardstick of the output gap easily underestimates the output gap if the economy shows long-lasting under-employment of factors of production (of course, a very Keynesian assumption!).

Post Keynesians, therefore, have put forward some other monetary policy rules either – somewhat arbitarily – setting the targeted (nominal or real) bank rate at zero[12] or – better derived - extending the inflation targeting rule by a weighed term capturing the difference between targeted ('full employment') and actual unemployment: the employment gap.

B. 2 Fiscal policy rules

Recently, John B. Taylor has added a fiscal rule to his famous monetary policy rule (see Taylor 2000: 30ff.). In this rule, he distinguishes between cyclical and structural deficits. Possible candidates for fiscal policy regimes would be a 'close to balanced budget' regime with structural deficits very low and the actual budgetary balance to be governed by the automatic stabilisers – this could be termed 'sound finance regime' as it most certainly drives down the public debt ratio to zero in the long run.[13]

Secondly, a fiscal policy regime may focus on striving for the 'golden rule'. This would set the structural budget deficit at a level of the public investment ratio assuming sustained public investment expenditure. The UK's fiscal framework since New Labour took office in 1997, for instance, is based on such a 'golden rule regime' (see Balls/O'Donnell 2002: 168ff.).

An outspokenly (old fashioned standard-Keynesian) 'anti-cyclical fiscal rule' is captured by the German 'Stability and Growth Act' (SGA) of 1967, in which not only the cyclical budget balance is governed by deviations of actual GDP from its potential level (i.e. the output gap) but also the structural budget balance is showing discretion with respect to output gaps.

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[12] See e.g. Wray (2007) for a nominal zero bank rate and Smithin (2007) for a real bank rate close to zero.

[13] According to simple fiscal arithmetic, this will be the case as long as we assume the nominal growth rate exceeds the 'low' structural deficit.

Finally, the structural budgetary balance could be made dependent not on the actual output gap but on the public investment ratio (as the 'golden rule') which, in turn, will be determined by the difference between trend-GDP and the trend in potential (i.e. full employment) GDP (which can be called 'trend output gap' for short). This elaborated version of the 'golden rule' regime can be termed 'capital budgeting rule' as proposed by John Maynard Keynes in the first place (see Keynes 1943).

B. 3 Wage policy rules

Most traditional economists would, of course, argue that wage policy should follow the simple rule of setting the real wage increase at the level of labour productivity increase – as long as a full employment situation is given. In disequilibrium, the real wage increase must undercut (negative output gap) or exceed (positive output gap) the increase in labour productivity.

However, Post Keynesians have contested these views on two grounds: On the one hand, the collective bargaining partners cannot fix the real wage but merely the nominal wage.[14] On the other hand, the recommendation of wage moderation (and wage aspiration) in accordance with the labour market situation is only conducive if the predictions of Walrasian labour market theory were true, i.e. leading to labour market clearing. That, however, is exactly what any kind of Keynesian theory contests as very likely. Joining the two objections, nominal wage policy targeting real wages in accordance with labour market disequilibrium – the original Phillips curve as policy norm – may cause high inflation volatility and, once an independent central bank has been set up to precisely prevent this from happening, output volatility. Therefore, Keynes himself as well as most Post Keynesians favour a wage policy behaviour which keeps the price (respectively inflation) level stable over a certain range of labour market situations: nominal wage increases should avoid a claims conflict as much as it should refrain from excessive moderation. The normative rule would be to claim the

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[14] Of, course, by forming inflation expectations, they try to target real wages. However, these expectations may not only be missed but the procedure may be inherently inconsistent if inflation depends on wage settlements as is assumed in Post Keynesian mark-up pricing.

distributional margin given by the expected (cyclically smoothed) labour productivity increase and the inflation rate targeted by the central bank.

Some Kaleckians would add a redistributive component to the above-mentioned policy rule arguing that the mark-up over marginal cost is power-related and a redistribution of income to wage-earners would increase aggregate demand and, hence, be beneficial for growth and employment (see e.g. Bowles/Boyer 1995).

B. 4 Institutions, policy regimes and functional market constellations

There are two problems with rules: 1) there may be rules guiding the behaviour of economic agents, but they are not pre-announced and, hence, cannot convey the signals of credibility desired. For instance, the famous Taylor rule of inflation targeting seems to be followed even by many central banks that never officially declared to pursue inflation targeting. 2) Policy rules may be declared *ex ante* by policy actors but the degree of *ex post* compliance is low. Again, credibility is low if *ex ante* norms are merely seen as lip services. Therefore, it has sometimes been argued (see e.g. Wyplosz 2005) that rules should be investigated in the light of the institutional setting under which the political actor is pursuing its policy: These institutions may reinforce pre-announced *ex ante* rules as much as they may predict *ex post* compliance.

A vast amount of literature has correlated the degree of central bank independence with price stability orientation often termed as 'non-accommodation' or 'conservatism' on part of the central bankers (see Rogoff 1985) to pursue restrictive monetary policy along the lines of monetarist money-supply or New Keynesian ('tentative') interest rate targets. Credible implementation of the Post Keynesian monetary policy rule needs the distinction between instrument and target independence and a strong institutionalisation of accountability.[15]

The literature on collective bargaining institutions exposed a clear – linear (the Soskice case) or hump-shaped (the Calmfors-Drifill case) - link between the degree of centrality and the ability to control the claims conflict: According to this view, a behaviour necessary to produce a partly horizontal Phillips curve would need some market power on the side of Trade Unions

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[15] This is necessary to mitigate principal-agent-problems.

as well as the willingness to take an economy-wide perspective to internalise external effects (on employment) arising from collective wage bargaining. This can best be expected from corporatist collective bargaining institutions. In the Kaleckian variant of the Post Keynesian rule, the capability and willingness for conflicting behaviour on part of the Trade Unions can be increased by establishing an intermediate (regional-sectoral) bargaining level and system. The Walrasian rule of productivity linked real wage aspirations demands a decentralised bargaining structure and the lack of 'local pushfullness' at the decentralised level.

Table 2: Taxonomy of policy rules

Political actor (Policy field)		Rule	Theoretical foundation	Institutional ascription
Central bank (Monetary Policy)	-	Quantity of Money	Monetarism	Independent central bank ('conservative')
	-	Inflation targeting (IT)	New Keynesianism	Independent central bank ('tentative' or 'bold')
	-	Zero-interest rate target	Post Keynesianism	Subordinate/ accountable central bank
	-	Employment-augmented IT	Post Keynesianism	Independent central bank ('cooperative' / accountable)
Fiscal authority (Fiscal Policy)	-	Sound finance	Walrasian	Codified norms: ESGP
	-	Golden rule	New Keynesianism	UK Code of Fiscal Stability
	-	Anti-cyclical	Standard Keynesianism	German Stablity and Growth Act
	-	Capital budgeting	Post Keynesianism	NN
Trade Unions and Employers' Organisations (Wage Policy)	-	No rule / market based = productivity orientation	Walrasian	Decentralised
	-	Distributive margin	Post Keynesian	Centralised-Corporatist
	-	Conflicting claims / redistributive	Kaleckian / Neo-Marxian	Semi-centralised-Conflicting

Most difficult appears to be the institutionalisation of fiscal policy. This is certainly the case as fiscal policy – i.e. taxation, public spending and targeting a (positive, negative or zero) budget balance – is a critical part of democratic policy-making. Although this can be justly argued for monetary policy as well, the instruments controlled by the respective actors are certainly perceived as of different status with respect to their 'technical' or 'political' nature. Therefore, the best we can hope for[16] apart from purely discretionary behaviour is to establish intelligible partisan policy orientations (e.g. leftist governments pursue Standard Keynesian anti-cyclical policies, rightist goverments pursue Walrasian sound finance policies and 'New Centrist' governments pursue New Keynesian golden rule policies) or codified norms such as the European Stability and Growth Pact (ESGP), the British Code of Fiscal Stability, the German Stability and Growth Act or the American Budget Enforcement Act (BEA). As the evidence of partisan politics in general is marginal (see Blais/Blake/Dion 1993) and, in any case, no intelligible ascription of partisan ideology and fiscal policy rule has ever been convincingly articulated, we restrict the institutionalisation of fiscal policy rules to codified norms.

B. 5 Functional policy regimes to create optimal market constellation

As we have argued before and broadly summerized in Tab. 1, the combination of different policy rules or, rather, their institutionalisations in terms of policy regimes yields a variety of economic outcomes with respect to growth, employment and inflation. The best performance, however, needs a coordination of the different policy fields (procedural norm) in order to spawn a 'functional' market constellation. According to our underlying theoretical paradigm, the following policy orientations (norms of content) are required (Heise 2009):

- The political actor must pursue a stable fiscal policy that fulfills the requirements of a sustainable path towards full employment – this can be most readily accomplished through a *capital budgeting-oriented fiscal policy rule*.
- The political actor must solve the problem of time inconsistency by guaranteeing *central bank autonomy* (thereby creating trust in a price stability-oriented monetary policy) and minimizing the resulting principal-agent problem by *limiting autonomy to*

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[16] Wyplosz (2005) acknowledges these restrictions, yet wants to break the ice by proposing an independent 'Fiscal Policy Committee' charged with deciding the public budget balance with must be executed by the government.

the instruments, not the goals. These goals of price stability and a sufficiently high level of employment and economic growth must be clearly stated and communicated and *accountability* is required (which can best be achieved by following an *employment-augmented IT rule*).

- The political actor must help to reduce market valuation volatility by contributing to a stable exchange rate regime via institutional arrangements and by promoting (or at least not undermining) the willingness and readiness of Trade Unions and Employers' Organisations to engage in collusion and cooperation (*corporatism*).

- The political actor must utilize institutional arrangements (such as social pacts, concerted actions or macroeconomic dialogues) to help ensure that the *cooperation* problem resulting from the separation of monetary and fiscal policy to independent actors is as minimized as the state policy carriers' (government and central bank) approval of the wage policies which provide the foundation for inflation-free growth at full employment.

III. Institutions, market constellations and economic performance – putting SABT into place

Before we will apply the above framework to our sample of countries – SABT -, we will shed a scant light on their economic performances during the period under investigation in order to get a better grasp of their respective macroeconomic conditions.
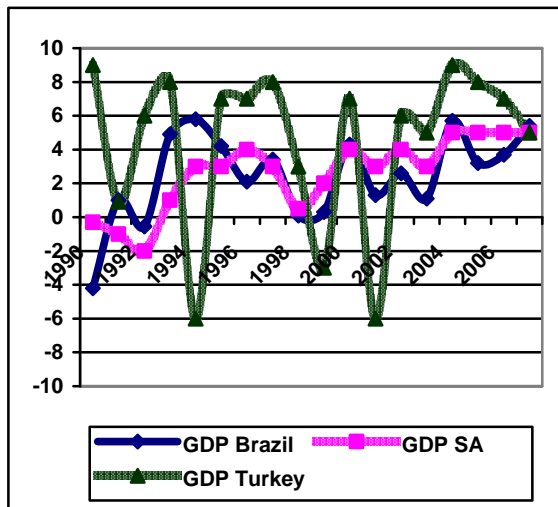
Figure 1 depicts the GDP growth rates of SABT – while the pattern of the growth performance of Brazil and South Africa shows a similar upward trend, Turkey's GDP is characterised by its high volatility: at least four periods of recession – 1991, 1994, 1999 and 2001 – and five boom periods – 1990, 1993, 1995/1997, 2000 and 2004 – can be singled out. Although Turkey also experienced a weak upward trend and highest average (per capita) GDP growth rates among SABT, with inflation rates higher than in South Africa and Brazil in every year of the period under investigation and only a gradual disinflation process after the 1994 recession, comparison with the sample of all emerging and developing countries reveals, nevertheless, a clear under-achievement.

Brazil experienced a deep recession in the early 1990s as a result of the so called 'Collor plan' to break hyperinflation. As figure 2 and table 3 show, this was remarkably unsuccessfull both in terms of inflation and growth performance. Only the 'Cardoso plan' from 1994 onwards - which included a pegging of the exchange rate to the US Dollar - brought hyperinflation rapidly down from above 2000% in 1994 to 66% in 1995, 16% in 1996 and even below 10% ever since. However, this phase of exchange rate pegging until 1998, when Brazil was hit by repercussions of the financial crisis in Russia and Asia and a rapid depreciation of the Brazilian currency occured, must also be seen as detrimental to growth: in table 3, both sub-periods covering the years of the Collor (1990 – 1994) as well as the Cardoso plan (1995 – 1999) show very low average GDP growth rates. This judgement can be particularly justified if growth rates are compared to those of the Newly Industrialised Asian Countries (NIAC) and the emerging and developing countries in total as a reference group and, moreover, if the difference in average annual population growth rates (Brazil: 1.8%; NIAC: 0.8%) is taken into consideration to create per capita growth rates.

The period from 2000 onwards after having brought down inflation to levels below 10 per cent shows clearly the best performance in Brazil, yet must still be rated as disappointing if compared to the other country reference groups – leaving the issue of high unemployment unresolved.[17]
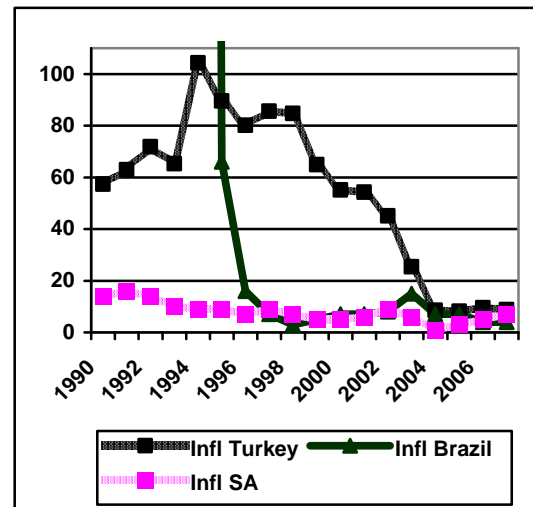
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[17] According to ILO's Laborsta statistics, unemployment rose from about 3,7% in 1990 and around 6% in the mid-1990s to around 10% in the early 2000s and remained at that level during the 2000 – 2007 period. The level of unemployment reported here must be taken very cautiously (a more accurate figure may be given by the unemployment rate of the major industrial area Sao Paulo which rose from around 10% in the early 1990s to 20% in the mid-2000s; see Camara Neto/Vernengo 2007), however, the trend appears valid. Laborsta reports unemployment rates for Turkey that rose from 7% in the early and mid-1990s to 10% since the early 2000s. No ILO unemployment figures are reported for South Africa, but national (official) statistics report about 16% in the mid-1990s which rose to more than 27% in early 2000s.

Figure 1: GDP growth rates in SABT; 1990 - 2007

10
8
6
4
2
0
-2
-4
-6
-8
-10

1990 1992 1994 1996 1998 2000 2002 2004 2006

GDP Brazil | GDP SA
GDP Turkey

Source: IMF; World Economic Outlook Database, October 2008

Figure 2: Inflation rates in SABT; 1990 – 2007

100
80
60
40
20
0

1990 1992 1994 1996 1998 2000 2002 2004 2006

Infl Turkey | Infl Brazil
Infl SA

Notes: Inflation rates are consumer prices. Inflation rates in Brazil between 1990 and 1994 cannot be displayed as they exceeded the 100% level by far: 1990:2948%, 1991: 477%, 1992: 1022%, 1993: 1927%, 1994: 2076%.
Source: IMF; World Economic Outlook Database, October 2008

South Africa, finally, reports a very similar performance as Brazil: After the end of apartheid, GDP growth rates gradually increased, while keeping inflation rates below 10 per cent with a slight disinflationary trend. Again, compared to NIAC and all emerging and developing countries South Africa's performance must be judged as disappointing.

Table 3: GDP growth rates in SABT , NIAC and Emerging and Developing countries, 1990 – 2007

Period	South Africa	Brazil	Turkey	Newly Industrialised Asian Countries (NIAC)*	Emerging and developing countries**
1990 – 2007	2.6 (1.5)	2.5 (1.8)	4.5 (1.8)	5.2 (0.8)	4.7 (-)
1990 – 1994	0.2	1.4	3.7	7.4	2.5
1995 – 1999	2.6	2.0	4.2	4.8	4.0
2000 – 2007	4.2	3.5	5.2	4.9	6.4

Notes: * Hong Kong, Taiwan, Singapour, Korea; ** 147 countries; average population growth rates in brackets

Source: IMF, World Economic Outlook Database, April 2009

Broadly speaking, whether inflation has been curbed drastically and shock-like as in the Brazilian case or brought down in a gradual process as in the Turkish case or kept under control as in South Africa, (per capita) GDP growth in SABT has been under-achieving since 1990 in each of the sub-periods. The Turkish growth performance appears best (overall as well as during the last sub-period), while the Brazilian peformance is the weakest leaving South Africa with an intermediate performance. However, whilst South Africa managed to reduce its deviation from the EME growth performance and Brazil, after all, did not fall much further behind, Turkey's position weakened from above to below average in reference to all EME countries.

The questions to be answered in the section ahead are: 'Does the market constellation approach produce sensible results in explaining our above finding'? 'Where does SABT fit into the picture'? In order to find answers, we must first paint a broad picture of SABT's institutional setting in the field of monetary, fiscal and wage policies. Tab. 4 summarises in a broad way the institutional set-up of SABT: all three countries granted their central banks full instrumental independence but retained some right to set the quantitative price stability target by some

governmental authority. By around the turn of the century, all three central banks had adopted some form of Inflation targeting after alternative (exchange rate targeting in the case of Brazil and Turkey) or transitional (quantity of money and eclectic approaches in South Africa) monetary policy regimes proved unsustainable. Due to the factual or feared credibility lack, particular arrangements (i.e. inflation band targets in the presence of some extra-attention for exchange rate movements as is the case in almost all emerging market economies; see Eichengreen 2002) and over-ambitious inflation targets, this type of central bank design creates a monetary policy orientation which we have termed 'tentative' earlier (see Plenderleith 2003, Aron/Muellbauer 2006: 12, Araujo/Santos 2007, Yeldan/Cömert 2008).

Table 4: SABT's institutional set up

Country	Central Bank design		
	Central Bank independence	**Policy regime**	**Characteristics**
South Africa	Full instrumental independence, but targets set by government	Inflation targeting since 2000	Tentative
Brazil	Full instrumental independence, but targets set by National Monetary Council	Inflation targeting since 1999	Tentative
Turkey	Full instrumental and objective independence with some rights concerning the setting of the targeted inflation rate retained for the government	Implicit Inflation targeting 2001 – 2005, Inflation Targeting since 2005	Tentative
	Collective bargaining regime		
	Coverage rate	**Degree of centralisation**	**Characteristics**
South Africa	Medium	Sectoral-regional with strong second tier at company-level	Soskice case
Brazil	High	Sectoral-regional with strong second tier at company-level	Strong signalling effect of minimum wages
Turkey	Low – medium	Individual, company-level	Strong signalling effect of backward-biased minimum wages
	Fiscal Policy regime		
	Policy programme/ Rule	**Quantitative deficit targets**	**Characteristics**
South Africa	Growth,Employment and Redistribution Strategy (GEAR) / Sound finance	-	Restrictive / austere
Brazil	Fiscal Responsibility Law (FRL) / Golden rule without specific public imvestment target	+ 3,75 to + 4,5% of GDP Primary Fiscal Surplus	Restrictive / austere
Turkey	Programme for Transition to a Strong Economy / Sound finance	+ 6,5% of GDP Primary Fiscal Surplus (until 2007)	Restrictive / austere

As collective bargaining regimes commonly show a high degree of historical pathdependency, it would be surprising to find too similar institutions in the three countries under investigation.

However, after the end of Apartheid in South Africa as well as military dictatorship in Brazil, trade unions were among the winners of political reforms of democratisation as the possibility to collide and set-up collective bargaining on the one hand as well as labour representation on the other hand had been strengthened. Collective bargaining in both countries predominantly takes place at the intermediate sectoral-regional level. However a strong second tier of company-level bargaining evolved giving rise – empirically better documented for South Africa than Brazil (see Nel 2002) – to strong local pushfullness termed 'Soskice case' before. As a heritage of its hyperinflation past and ensuing wage indexation, minimum wages play a considerable role as signalling device in Brazil.

In Turkey, the influence of trade unions is much more restricted, wage bargaining basically conducted at the company level and the barriers to collusion very high. Under these conditions, the minimum wage set by the tripartite 'Mimimum Wage Fixing Committee' becomes an important standard for pattern bargaining not only for workers in the informal sector.

Finally, all three countries experienced a combination of unsustainable public deficits, an integration into international financial markets and balance-of-payments problems during the 1990s which had been addressed by IMF-imposed fiscal austerity programmes which were, as South African Finance Minister Trevor Manuel said (with regard to South Africa but true for all three countries) "not up for negotiations" (see Ajam 2005: 6). Under different policy programme brands, but always with reference to IMF obligations and in hope to appease international financial markets, very restrictive fiscal policy orientations (see OECD 2006a: 461, Giambiagi/Ronci 2004) in the line of 'sound finance' regimes were taken. Brazil and Turkey even published quantitative deficit targets in order to 'tie their hands'. Although Brazil's fiscal policy rule exposed in the Fiscal Responsibility Law (FRL) made dispositions for deficit-financed public investment, the lack of any quantitative target for public investment puts the description as 'golden rule' into doubt.

To conclude, SABT's market constellation appears to be characterised by an institutional setting that does not provide the pro-growth environment which the economies needs to create the jobs and to fulfil the expectations of government and the people. The combination of non-accommodating (tentative) monetary policy regimes, uncoordinated, decentralised to

intermediate collective bargaining settings with partly (South Africa) strong 'local pushfullness' at company level and very restrictive fiscal policy regimes, provides sub-optimal conditions resulting in low growth, medium to low inflation (yet higher than possible in a different market constellation) and high unemployment (see tab. 1).

IV.   Some empirical evidence on SABT's market constellations

Before we will take a closer look at empirical evidence for the explanations put forward here, let us extract some hypothesis: We would not only expect (1) a relatively[18] low growth rate and high unemployment for SABT as already established, we would also expect (2) relatively[19] high real interest rates which will cause (3) low private investment spending. Although a very restrictive fiscal policy stance showing high primary budgetary surpluses can be taken for granted, the overall budget balance will be heavily in deficit (4) as interest payments will be high. This type of fiscal-monetary conflict usually carries with it a low and falling public investment rate (5). Moreover, inflation will be relatively high, even though the SABT's central banks take a non-accommodating stance. This is mainly so because (6) nominal unit labour cost (NULC) are supposed to rise quite fast since the collective bargaining system does not provide incentives to care for the 'distributional margin' consisting of productivity increases and targeted inflation. Finally, it would be rather surprising (7) to find traces of cooperative behaviour in fiscal, monetary and wage policy stances.

A.   High real interest rates and low private investment

There is not much dispute about the reversal in short-term real interest rates in post-apartheid South Africa after being negative in the 1980s (see Kahn/Farrell 2002), and their high average level since 1995 (see tab.5 [a]) is also widely acknowledged. It is basically the latter phenomenon which has contributed to a less unambiguous interpretation of South Africa's interest rate performance: While Epstein (2002) attributes high interest rates to the restrictive monetary policy stance, Aron/Muellbauer (2006) partly blame a monetary policy strategy based on exchange rate

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[18] 'Relatively' must be interpreted 'as compared to a counterfactual situation of more pro-growth market constellations (i.e. cooperative strategy)' or as compared to a country showing such characteristics.

[19] 'Relatively' means not only in comparison to other countries but also in comparison to the countries growth rate.

targeting (during the earlier part of the 1990s), partly a country specific risk premium. Kahn/Farrell (2002: 21; our italics) of the SARB admit that "…,current rates reflect to a certain extent the Reserve Bank's *overriding commitment to the inflation target*". However, they haste to add that a different policy stance ('artificially low interest rates') would merely result in higher inflation and higher long-term real interest rates. That this is not necessarily true has been argued in the theoretical part of this work and can be seen in countries like China or Malaysia who manage to produce much lower real interest rates (in absolute terms as well as in terms of growth-interest rate differentials; see tab. 5 [a]) without sparking unacceptable inflation (not shown in tab. 5, but inflation in China and Malaysia was lower than in SABT over the whole period).

If South Africa's real interest rates must be judged as high, interest rates in Brazil and Turkey are even higher. For Turkey, the regime change from accommodating to non-accommodating monetary policy is clearly detectable during the 2000-2007 sub-period, for Brazil the move from exchange rate (1995-1999) to interest rate targeting (2000 – 2007) appears to have been beneficial in terms of a slight monetary relaxation. Moreover, South Africa's earlier and more determined acceptance of price stability appears to have payed off in the last sub-period with a credibility advantage and relatively lower real interest rates than in Brazil and Turkey.

The empirical picture about investment in SABT also fits our expectations (see tab. 5[b]): The low level of accumulation in South Africa stands out and its importance for the low growth and disappointing employment performance has been highlighted in many studies.[20] However, the restrictive monetary policy stance and the high real interest rates are certainly not the only factors of explanation – the high level of political and social risk[21] is always and rightly emphasized – as comparison with Brazil and Turkey indicates: although Brazil's and Turkey's monetary regime was more restrictive at least during the most recent sub-period, capital formation developed at a higher pace there. Again, comparison with China (comparative data on capital formation in

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[20] Gibson/van Seventer (2000) as well as Aron/Muellbauer (2002) report statistically significant correlations using econometric models of the South African economy, whereas Gelb (2001) uses panel data from company studies to establish a clear link between capital cost and the growth of firms and their investment behaviour.

[21] The standing term 'social risk' does not maintain that developments are predictable by probability calculation. Therefore, 'social risk' really refer to a situation of fundamental uncertainty.

Malaysia is not available) substantiates the claim that the rate of accumulation in SABT was, nevertheless, insufficient.

And, finally, SABT's development in comparison with China also sheds a very sceptical light on the 'globalisation thesis' whereby exposure to international financial markets and their 'Washington Consensus' preconditions will be honoured by Foreign Direct Investment (FDI) inflows making up for out-crowded (by high interest rates) domestic investment. By trend, gross capital formation has gone down in Brazil and Turkey since the early 1990s – the 'globalisation period' – while South Africa's marginal increase during the most recent sub-period may well point to a very different reasoning: Epstein (2002) provides some evidence on reverse causality running from higher economic growth to higher FDI rather than *vice versa*.

B. Budget Balances and public investment

In order to render a judgement on public finances in SABT as intentionally pursued policy regime possible, cyclically adjusted fiscal balances – i.e. the 'structural' budget balance – need to be looked at. However, data is consistently available only on overall budget balances including the cyclical component. On the one hand, fiscal elasticity with respect to the business cycle is usually assumed to be rather low in emerging market economies (as compared to highly developed countries), on the other hand output volatility is much more pronounced – overall budget balances will have to be enough to indicate the policy stance all the same. Moreover, the primary balance, i.e. excluding interest payments, tells a more adequate story about the macroeconomic impact of fiscal policy as interest rate payments have merely a (re-)distributive character.

Tab. 5 (c) shows some striking features: the regime shift towards an extremely restrictive fiscal policy stance is detectable in all three countries stressing primary as well as overall public balances. In Brazil, the 'Collor Plan' sub-period had been cushioned by a relaxation in fiscal policy, while in Turkey overall fiscal balances in the most recent sub-period are distorted by the extra-cost of earthquake damages in the early 2000s.

However, extraordinarily high primary budget surpluses – indicating the restricted room to manoeuvre for public policy – did not translate into equally low overall budget deficits or even surpluses due to very high interest rates resulting from monetary restriction. In the case of South

Africa and Brazil, the monetary-fiscal policy mix did not even allow for a substantial reduction of public debts.

Table 5: SABT – Empirical evidence

	South Africa		Brazil		Turkey		China	Malaysia
a) Short-term Real Interest Rates, 1990 - 2007								
1990-1994	2.0 (0.6)		3546 (--)		5.5 (-1.0)		-1.8 (12.7)	2.6 (6.7)
1995-1999	7.5 (-4.9)		12.9 (-10.9)		-7.6 (11.8)		2.0 (7.1)	2.9 (2.3)
2000-2007	3.5 (0.7)		10.2 (-6.7)		11.1 (-4.9)		2.1 (8.0)	0.9 (4.6)
b) Trends in investment (gross fixed capital formation), 1990 – 2007						China		
1990-1994	16.4		19.3		22.6		37.9	
1995-1999	16.3		18.0		22.4		37.6	
2000-2007	17.0		16.0		19.6		40.2	
c) Trends in public finances, 1990 – 2007								
1990-1994	-4.0	NA	-14.9	3.4				
1995-1999	-4.2	NA	-2.9	0.5	-7.8	2.2		
2000-2007	-1.3	NA	-1.5	3.8	-7.0	5.3		
d) Trends in Public Investment, 1990 – 2007								Malaysia
1990-1994	4.8		3.3		6.9			12.9
1995-1999	4.7		2.4		5.6			11.5
2000-2007	4.3		2.1		3.2			NA
e) Nominal Unit Labour Cost (NULC), 1991 – 2007							Poland	Spain
1991-1994	NA		NA		70.0		NA	5.7
1995-1999	6.1		-6.5		77.3		12.5	0.8
2000-2007	4.2		-0.4		21.1		-2.3	2.1

(a) Notes: short term real interest rate: money market rate (South Africa; Brazil), interbank money market rate (Turkey, Malaysia), bank rate (China); deflator: consumption deflator; figures in brackets indicate the growth-interest rate differential);

Source: IMF International Financial Statistics online

(b) Notes: NA = not available

Source: South Africa: SARB monthly bulletin time series; Brazil: OECD Main Economic Indicators online; Turkey: European Economy. Statistical annex April 2009; China: National Bureau of Statistics online

(c) Notes: - = deficit

Source: South Africa: SARB monthly bulletin time series; Brazil: IPEA data online; Turkey: IMF, SPO (State Planning Organization)

(d)Notes: Data for Turkey only 2004 - 2007

Source: South Africa: SARB online; Brazil: IBGE online data; Turkey: European Economy – statistical annex 2009 and Everhart/Sumlinsky (2001); Malaysia: Everhart/Sumlinsky (2001)

(e) Notes: NULC for industry; * break in data

Source: OECD Unit labour costs online data

A major part of the problem has been pointed out by Easterly/Irwin/Serven (2007): fiscal consolidation is commonly mastered only to the detriment of public investment and, as public investment is a precondition for (long term) private investment, future growth – jeopardising the very objective of fiscal adjustment: public debt reduction.

Tab. 5 (d) shows the problem facing SABT: not only is the level of public investment far too low for EMEs that try to catch up with highly developed countries (see Malaysia, where data availability is unfortunately restricted) but it is also declining under the severe pressure of fiscal austerity – among SABT, South Africa appears to have maintained the most stable development of public investment even during the most recent sub-period, while Brazil's public investment performance is the worst of all.

C. Wage setting and inflation fighting

SABT has seen some success in taming inflation by tying the hands of its central bankers either by way of exchange rate or inflation targeting starting in the mid-1990s and adopting implicit or

full-fledged IT in early 2000s and, henceforth, ending explicit and implicit indexation. However, ever since IT has been put in place, SABT's central banks confronted difficulties in meeting the announced inflation targets: in most years, actual inflation exceeded the inflation range *ex post* that was set *ex ante* or, at least, only managed to keep it at the upper end of the range. Hence, there is evidence of an unsettled claims conflict.

Assuming, as Post Keynesianism does, mark-up pricing over costs, nominal unit labour cost (NULC) developments become the major factor in determining (core) inflation. If wage developments and, hence, inflation were heavily dependent on output and employment gaps, a deflationary outcome would appear to be unavoidable in countries with substantial unemployment (officially above 20% in South Africa, which is a magnitude not unrealistic also for Brazil and Turkey if the huge amount of informal unemployment is also accounted for). Put differently, the downward rigidity of nominal wages in the presence of marked labour market disequilibria serves as a stabilising device once the working of the real balance effect has been rejected (see Fellner 1957, Dullien 2006) – wage policy becoming an internal nominal anchor.[22] Yet, what is crucial for the stability in a world that does not oscillate around a natural unemployment rate, renders IT monetary policy less effective: the lower the wage and price elasticity with respect to employment or output gaps (i.e. the flatter the Phillips curve), the more difficult it is to pursue inflation and output stability with a single monetary policy rule (see Carlin/Soskice 2006: 147). Moreover, not only the slope of the wage policy reaction function is important but also the incorporated claims conflict as indicated by its location: the more willingly wage policy takes the tolerated inflation rate into account, the less likely is a conflict with the central bank and *vice versa*.

As can be seen from tab. 5 (e), NULC developments in South Africa and, most clearly, in Turkey reflect these claims conflicts. The influence of NULC on inflation in South Africa is as well established (see e.g. Aron/Muellbauer/Smit 2003, Burger/Marinkov 2006) as the main factors determining NULC: past consumer price inflation, the wholesale price inflation of domestically produced goods, real house prices, and other minor factors (see Aron/Muellbauer/Smit 2003).

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[22] Empirical studies show that wage policy provides that nominal anchor in South Africa (see e.g. Hodge (2002), Nell (2000), Burger/Marinkov [2006]) while in Turkey that function appears to be played by the minimum wage (see Duman 2006).

Finally, there are several empirical traces of local pushfullness and 'insider behaviour': Burger/Marinkov (2006: 183) as well as Nell (2000) find a statistically significant relation between the output gap and the change in the output gap on the one hand, and the inflation rate on the other hand but only in an upward direction. And Aron/Muellbauer/Smit (2003: 27) report "(t)he other striking finding is how dominant are the concerns of workers in wage setting rather than of firms." In a Post Keynesian conflicting claims framework, this implies a high NAIRU.

For Brazil and Turkey, the minimum wage and its annual increase appears to have a strong influence on overall wage and NULC developments – although this influence is eroding in Brazil with the regime change from state-administered wage setting to collectively bargained wage policy (see Carneiro/Henley 1998).[23] As many welfare payments are linked to the minimum wage development resulting in a high public expenditure elasticity of the minimum wage, there is a strong incentive in Brazil to keep it low. In Turkey, the tri-partite 'Minimum Wage Fixing Committee' negotiates minimum wages with a backward-looking bias introducing some inflation inertia into the wage-setting process. Although there are not enough studies on the labour markets and collective bargaining processes in Brazil and Turkey to convincingly claim a 'Soskice case' wage and monetary policy conflict, some institutional arrangements such as the minimum wage arguably trigger such a conflict scenario (see Senses 1994 and Senses 1996 for Turkey and Carneiro/Henley 1998 for Brazil). However, a comparison with two European transitional and 'catching-up' countries under the regime of the European Central Bank's monetary policy – Spain as European Monetary Union (EMU) member and Poland as EU member preparing for joining EMU – indicate that only Brazil's NULC developments may be compatible with the price stability regime of a 'tentative' central bank.

D. Traces of policy coordination?

As demonstrated in the theoretical part above, a functional market constellation can best be expected to prevail under conditions of cooperation among the macroeconomic actors (procedural norm). In order to evolve and stabilize, cooperation needs an institutional setting which not only

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[23] Lemos (2004) shows that after the regime change in Brazil, only those wages for low-skilled, low-income workers are clearly affected by the minimum wage; see also Carneiro (2006)

allows for communication among the actors but also the credible assigning, monitoring and sanctioning of policy rules (norms of contents).

All three countries have established tripartite institutions of social dialogue: the *National Economic Development and Labour Council* (Nedlac) in South Africa, the *National Labour Forum* (NLF) in Brazil and the *Economic and Social Council* (ESC) in Turkey. The objectives of these institutions are manifold (see e.g. Houston/Liebenberg/Dichaba 2001; Atan 2004; ITUC 2007): to democratise economic policy-making in general, to parallel institution-building in the EU in the case of Turkey, to reorganise labour relations and labour law in the case of Turkey and, in the case of South Africa and Turkey, to coordinate the policies of the macroeconomic actors.

In a recent paper, the South African Reserve Bank researcher Swanepoel (2004: 734) argued: "The close relationship between monetary and fiscal policies carries with it the possibility of conflict and sub-optimal policies,… . Coordinated monetary and fiscal policies are extremely important as uncoordinated policies could potentially slow the economy's long-term growth rate or cause unwanted surges in inflation". Having highlighted the need for coordination and the consequences of its failure, Swanepoel convincingly shows that the macro-economic policy mix in post-apartheid South Africa has been un-coordinated. Moreover, the lack of coordination appears to be more pronounced in times of slack growth than in times of prosperity, i.e. Government and the SARB cooperate better in breaking a boom than in pushing out of a slump. A similar sceptical judgement could be made about the working of the ESC in Turkey (see Atan 2004) where the Central Bank of Turkey is not even an official participant of the social dialogue and of the NFL in Brazil, whose working has been largely in vain (see ITUC 2007).

Whether the failure of efficiently organised cooperation among the macroeconomic actors is due to a bias against corporatist ideas, to shortcomings in the institutional set-up or to simply ignorance in statutory objectives can remain an open question at this point – clearly the empirical picture of uncooperative Nash equilibria in SABT finds support in the established fact of missing traces of policy coordination.

V. Market constellations in comparison – anything to learn? A conclusion

This study set out to answer the question whether SABT's macroeconomic governance can be expected to achieve the high growth rates that the countries need to deal with their fierce unemployment and poverty problems, to let them catch-up with per-capita GDP of highly developed nations and to make them global growth engines of the 'After-Depression era'. In order to make sense of this kind of investigation, a theoretical model different from the new classical world of general equilibrium with its macroeconomic policy ineffectiveness postulates had to be chosen. Taking a Post Keynesian market constellation approach allowed us to seek answers to the above-mentioned questions by highlighting the institutional set-up of macroeconomic policy: the governance systems of the SABT countries. Assuming that institutions provide guidance for actor's behaviour, we were able to give theoretical and empirical evidence that the widely acknowledged under-performance of SABT with respect to per-capita growth and employment is rooted in a macroeonomic policy stance that is ideologically founded ('Washington Consensus') and aggravated by a lack of coordination.

Our research suggests that a restrictive monetary policy based on mainstream IT in a tentative fashion, an austere fical policy based on 'sound finance' principles and a uncompromising wage policy based on decentralised, locally pushfull collective bargaining structures and indexed minimum wages caused a non-cooperative Nash equilibrium which taylored a far too narrow macroeconomic coat for SABT.

Figure 3: Radar chart of comparative policy stances
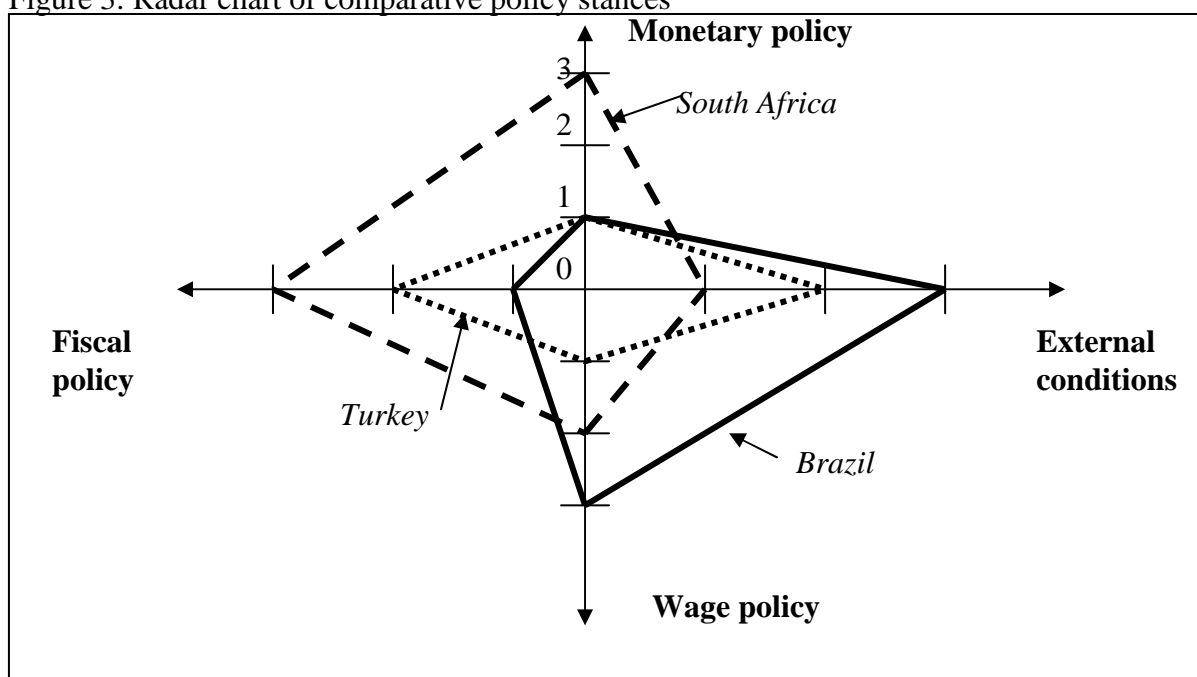
This very general judgement can now further be specified: in fig. 3, an attempt is made to visualise the comparative policy stances of the SABT countries in a radar chart (see Bogan/English 1994) – the further away from the origin and, hence, the bigger the field covered, the more functional a policy stance is[24]. In addition to the three policy areas discussed in detail above, a fourth dimension – 'external conditions' – is added in order to capture growth stimuli that emerge from foreign trade. Brazil is the only SABT country where a current account surplus positively contributes to growth in aggregate demand, while in South Africa and Turkey the current account turned heavily into deficit. A gradual decline of the Real Effective Excange Rate (REER) in Brazil and a slight (Turkey) and a heavier (South Africa) rise in REER in the two other SABT countries explain these developments to a great extent (see OECD 2006b: 29; OECD 2008a: 29; OECD 2008b: 123). By attributing a rank to the different degrees of functionality (origin: 0, higher degree of functionality from 1 to 3), we are able to cardinally measure and compare the overall market constellations. With a combined rank of 9, South Africa gets the highest cardinal measure, Brazil scores 7 and Turkey 5. Although these cardinal scales measure

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[24] One should keep in mind that the radar chart in fig. 3 only measures the relative performance of the SABT countries. Hence a rank of 3 only implies that the respective policy regime is less dysfunctional than a rank of 1 or 2. It does not imply that it is functional – this would be in contradiction to the forgoing analysis.

solely qualitative, no exact quantitatives differences, the overall ranking matches the relative development established in tab. 3. We are painfully aware that this level of empirical testing is not very sophisticated, yet until internationally comparable data on inflation and output gaps and on structural (primary) fiscal balances become available for periods long enough to draw reliable conclusions, this is as good as it gets. At this point, it appears impossible to reject the idea that macroeconomic governance in the 'market constellation' sense put forward in this paper alters the relative performance of economic development. However, economic governance is based on the economic activity of individual and corporate actors which is, at least partly, independent of economic governance – otherwise it would be difficult to explain why Turkey's absolute performance (in terms of average per-capita GDP growth rates) is still the best among SABT.

The foregoing analysis does not lend support to the mainstream macroeconomic policy recommendations of austere policy assignment known as the 'Washington Consensus' which has been imposed on many EME countries by the IMF and strictly followed by SABT countries. Contrary to mainstream presumptions, Washington consensus type policies did not pave the way for sustained high growth with low inflation, but are responsible for economic under-achievements and the unresolved problems of unemployment and poverty. This did not go unnoticed in SABT particularily as the political regime shifts in the past were mainly explained by the desire of the people to address these problems. Yet, only in South Africa, the ANC government has reacted by replacing the former GEAR strategy with a new 'Accelerated and Shared Growth Initiative for South Africa' (AsgiSA). However, instead of tackling the dysfunctional market constellation, AsgiSA is adressing supply-side constraints (shortcomings of infrastructure, shortages of skilled labour, regulatory deficiencies) very much in line with recommandations provided by the OECD for Brazil and Turkey (see OECD 2006b; OECD 2008b). Although supply-side constraints may exist, their elimination will not be enough unless the macroeconomic coat allows for higher per-capita growth. The recommandation derived from our study would be to re-design the existing tri-partite institutions of social dialogue into an effective body that turns assignment into cooperation by establishing, monitoring and sanctioning policy rules along the lines exposed in chapter II.b.5. As such a cooperative strategy is based on the credible assumption that price stability and fiscal sustainability is not sacrificied, it cannot be ruled out that a pro-growth market constellation advocated here needs a preceding sequence of credibility-builtup. However, it is high time that this period comes to an end in SABT and 'times of cooperation' are announced.

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