Growth engines of the south? South Africa, Brazil and Turkey in comparison

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Abstract: South Africa, Brazil and Turkey (SABT) are among those countries that not only to continue to converge towards the 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. Therefore, it appears interesting to inquire into the macroeconomic governance structures of SABT in order to assess their capabilities for enhancing growth and employment. This will be done on the basis of a Post-Keynesian policy model of market constellations comprising of institutionally embedded macro-economic policy regimes.

Keywords: market constellations; policy regimes; institutions; Post-Keynesianism; comparative economic systems.

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1 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, worldwide GDP is expected to fall by 2–3%, unemployment will continue to increase and international trade will contract for the first time in decades. Regardless of how gloomy the short-term perspective is, there will be a recovery eventually (see e.g., OECD, 2009).

South Africa, Brazil and Turkey (SABT) are among those countries expected as EMEs 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 recession.[1] Of course, whether SABT can transform the potentials of being in a position to create a brighter future for their people and the world economy reality depends on – among other things[2] – the economic governance pursued by the governments and collective actors in these countries. Therefore, enquiring into the macroeconomic policies pursued by SABT to assess their capabilities is an interesting endeavour.

This is even more pressing as most EMEs have taken on – sometimes deliberately and sometimes as required 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 macroeconomic governance) are becoming once again thinkable (see e.g., Akerlof, 2007). Moreover, there appears to be little dispute that SABT have been underperforming in terms of GDP growth when compared with similar EME such as China, Malaysia or India as well when compared with 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 a deterrent to higher growth particularly in EME[4] – SABT all turned towards IT at around the turn of the millennium. Or is the famous balance-of-payments constraint known as Thirlwall's law (see e.g., Dutt, 2002) to be blamed? Rather than focusing 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]

Since the seminal papers by Williamson (1975) and North (1990), an immense amount of work has been published on the relationship between institutional structures and economic development. However, most of this work concerns micro-economic allocational and distributive impacts of political, legal and economic institutions (such as parliamentary representation, corporate finance structures or labour market regulations) derived from using general equilibrium models. The approach suggested in this paper differs on two grounds from this work: It is based on a Post-Keynesian model of an under-utilisation equilibrium (which also sets it apart from the otherwise similar approach of the recent 'Varieties of Capitalism' research using a neo-Keynesian disequilibrium foundation; see e.g., Hall and Soskice, 2001; Iversen, 1999) and it is concerned with impacts of macroeconomic interventions into factor utilisation.

The paper is structured as follows: in Section 2, the theoretical foundation of the Post-Keynesian market constellations approach is briefly exposed. Thereafter, in Section 3 the SABT countries are portrayed with respect to their institutional set-up supporting respective market constellations. These market constellations are compared in Section 4 and the comparative performance hypothesis thus derived is empirically tested. In Section 5, the outlook of the future SABT growth perspectives and pending institutional changes is discussed.

2 Macroeconomic policy regimes and economic outcomes: the Post-Keynesian market constellation approach

2.1 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 particularly obvious from a paradigmatic point of view of economic activities that sets out to 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, both 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 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-announced 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. Quantity, price changes or arbitrary, difficult to predict combinations of quantity and price changes can appear depending on the reactions of market participants.

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, employment and inflation (as the most important policy targets), depending on how they influence expectations regarding future macroeconomic demand. Economic policy actually cannot directly – teleologically – steer (real) economic growth and employment; it can only contribute to the creation or preservation of a market constellation that if incentives are set adequately steadies and stabilises the expectations of the economic actors and maintains a high level of macroeconomic demand or, contrary to that, if institutional incentives favour a 'dysfunctional' market constellation may become part of the problem.[9]

As demonstrated elsewhere (cf. Heise, 2008), the macroeconomically oriented institutions, regulations and governance structures described earlier exert their influence primarily on the number of deployed production factors, making them especially important when examining extensive growth and employment trends.

If at least a short-to mid-term correlation exists between the labour market situation and nominal wage and price development, as postulated by both the original and the 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. It has been demonstrated (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 be snap closed. This will lead to higher levels of unemployment (and correspondingly lower 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 behaviour of an actor can be predetermined, independent of the behaviour 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, 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 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 asymmetrically ('tentative') meaning they immediately adopt restrictive measures when faced with inflationary developments but do not address deflationary developments with correspondingly expansive monetary policy.

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*)		
Wage policy	*Centralised/coordinated*		*'bold'*	*'tentative'*	*Cooperative*
		Stackelberg leadership of monetary policy	*Stackelberg leadership of wage policy*		*Cooperative Nash equilibrium*
		UNR: low	UNR: medium–low	UNR: medium	UNR: low
		INF: medium	INF: low	INF: low	INF: low
		GROWTH: high	GROWTH: medium – high	GROWTH: medium	GROWTH: high
	Decentralised/non-coordinated		*Non-cooperative Nash equilibrium*		
			'Soskice case':		
		UNR: medium	UNR: medium–high		
		INF: high	INF: medium–low		
		GROWTH: medium	GROWTH: medium–low		
			'Calmfors-Drifill case':		
			UNR: low– medium		
			INF: low–deflationary		
			GROWTH: medium–high		

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 and Drifill, 1988).

2.2 Policy rules underlying different market constellations

Having established the institutional foundations of different market constellations and having pinpointed the critical nature 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 began with a Post-Keynesian approach to manifest market constellations, we will follow this line of argument to elaborate on the functional and dysfunctional policy regimes. Moreover, we will first expose some possible rules that have been established in the literature as market constellations can only be ascertained if the policy actors follow perceivable policy orientations as manifested in pre-announced rules (see Table 2). Thereafter, a functional market constellation will be distinguished by its normative and institutional requirements.

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 stability and growth act
	Capital budgeting	Post-Keynesianism	NN
Trade Unions and Employers' Organizations (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

2.2.1 Monetary policy rules

The end of the Keynesian era of economic policy-making after World War II was marked by Friedman's (1968), Lucas' (1972) and 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 according to the rate of change of GDP and the velocity of money, was not very successful as the quantity of money is not an instrument variable itself but rather an intermediate target. This fact 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 Taylor (1993): IT. According to this rule, the central bank sets the interest rate with respect to weighted measures of output and inflation gaps whereby the weights reflect the 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 et al., 1998), Post-Keynesians have repeatedly criticised the path-dependency of its major determinant: potential or trend output used as a yardstick of the output gap easily underestimates the output gap if the economy shows long-lasting under-employment of factors of production (of course, itself a very Keynesian assumption!).

Post-Keynesians, therefore, have put forward some other monetary policy rules either – somewhat arbitrarily – setting the targeted (nominal or real) bank rate at zero[12]

or – better derived – extending the IT rule by a weighted term capturing the difference between targeted ('full employment') and actual unemployment; that is, the employment gap.

2.2.2 Fiscal policy rules

Recently, Taylor has added a fiscal rule to his famous monetary policy rule (see Taylor 2000, p.30). 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 very low structural deficits and the actual budgetary balance governed by automatic stabilisers. This new regime could be called a 'sound finance regime' as it most certainly drives down the public debt ratio to zero in the long run.[13]

Second, 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 and O'Donnell, 2002, p.168).

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 affected with respect to output gaps.

Finally, the structural budgetary balance could be made dependent not on the actual output gap but on the public investment ratio (as in 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 called the 'capital budgeting rule' as proposed by John Maynard Keynes in the first place (see Keynes, 1943).

2.2.3 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 there is full employment. In disequilibrium, the real wage increase must either undercut (as in a negative output gap) or exceed (as in a 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 are 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 a policy norm – may cause high inflation volatility and, once an independent central bank has been set up to precisely prevent this output volatility from happening. Therefore, Keynes himself as well as most Post-Keynesians favour a wage policy behaviour, which keeps the price level (respectively inflation) 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 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 and Boyer, 1995).

2.2.4 Institutions, policy regimes and functional market constellations

There are two problems with rules:

- There may be rules guiding the behaviour of economic agents, but they are not pre-announced and therefore do not convey the signals of credibility desired. For instance, the famous Taylor rule of IT seems to be followed even by many central banks that have never officially announced that they are pursuing IT.
- 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 service. 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. It is often called 'non-accommodation' or 'conservatism' on part of the central bankers (see Rogoff, 1985) when they 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 exposes 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 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 to a decentralised bargaining structure and the lack of 'local pushfullness' at the decentralised level.

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 it can be justly argued for monetary policy as well, the instruments controlled by the respective actors are certainly perceived as of different statuses 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 or codified norms such as the European Stability and Growth Pact (ESGP), the British Code of Fiscal Stability, the German SGA or the US Budget Enforcement Act (BEA). As the evidence of partisan politics in general is marginal (see Blais et al., 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.

2.2.5 Functional policy regimes to create optimal market constellation

As we have argued before and broadly summarised in Table 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) to spawn a 'functional' market constellation. According to our underlying theoretical paradigm, the following policy orientations (norms of content) are required (Heise, 2009):

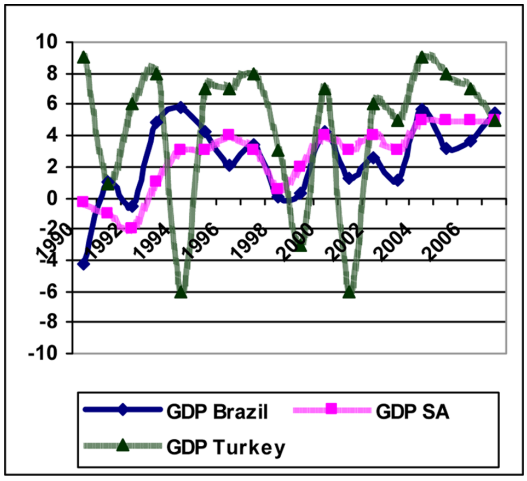
- The political actor must pursue a stable fiscal policy that fulfils the requirements of a sustainable path towards full employment – this can be most readily accomplished through a *capital budgeting-oriented fiscal policy rule*.
- The political actor must solve the problem of time inconsistency by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

3 Institutions, market constellations and economic performance: putting SABT into place

Before applying the above-mentioned framework to our sample of countries – SABT, we will shed a scant light on their economic performances during the period under investigation 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 the 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.

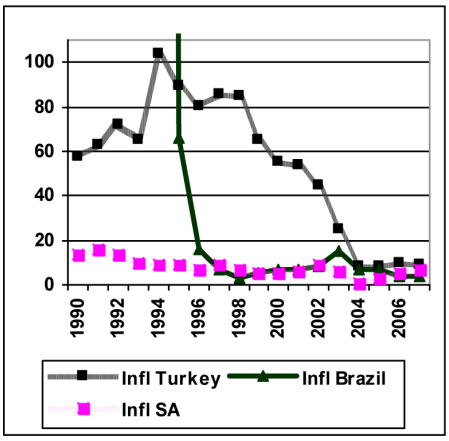
Figure 1 GDP growth rates in SABT (1990–2007) (see online version for colours)



Source: IMF; World Economic Outlook Database, October 2008

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 unsuccessful 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 lasted until 1998, when Brazil was hit by the repercussions of the financial crisis in Russia and Asia and a rapid depreciation of the Brazilian currency occurred, which must also be seen as detrimental to growth. In Table 3, both sub-periods covering the years of the Collor Plan (1990–1994) as well as the Cardoso plan (1995–1999) show very low average GDP growth rates. This judgement is particularly justified if growth rates are compared with those of the Newly Industrialised Asian Countries (NIACs) 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.

Figure 2 Inflation rates in SABT (1990–2007) (see online version for colours)



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

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

*Hong Kong, Taiwan, Singapore, Korea.

**147 countries; average population growth rates in brackets.

Source: IMF, World Economic Outlook Database, April 2009

The period from 2000 onwards after having brought down inflation to levels below 10% shows clearly the best performance in Brazil, yet must still be rated as disappointing if compared with the other country reference groups – leaving the issue of high unemployment unresolved.[17]

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

Broadly speaking, whether inflation has been curbed in a shockingly drastic manner as in the Brazilian case or brought down in a gradual process as in the Turkish case or kept under control as in the South African case (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), whereas the

Brazilian performance 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.

Two questions to be answered in the section ahead are: "Does the market constellation approach produce sensible results in explaining our above findings?" and "Where do SABT fit into the picture?". To find answers, we must first paint a broad picture of SABT's institutional settings in the fields of monetary, fiscal and wage policies. Table 4 summarises in a broad way the institutional arrangements 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 other governmental authority. By around the turn of the century, all three central banks had adopted some form of IT 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. These types of central bank design created a 'tentative' monetary policy orientation due to factual or feared lack of credibility, particular arrangements (i.e., inflation band targets in the presence of exchange rate movements as is the case in almost all EMEs; see Eichengreen, 2002) and over-ambitious inflation targets (see Plenderleith, 2003; Aron and Muellbauer 2006, p.12; Araujo and Santos, 2007; Yeldan and Cömert, 2008).

Table 4 SABT's institutional set-up

	Central bank design		
Country	*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

Table 4 SABT's institutional set-up (continued)

	Fiscal policy regime		
Country	*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 investment 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 path dependency, it would be surprising to find similar institutions in the three countries under investigation. However, after the end of Apartheid in South Africa as well as during the military dictatorship in Brazil, trade unions were among the winners of the 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 sector-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 is basically conducted at the company level and the barriers to collusion are very high. Under these conditions, the minimum wage set by the tripartite 'Minimum Wage Fixing Committee' becomes an important standard for pattern bargaining even 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. These problems were 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, p.6). Under different policy programme brands, but always with reference to IMF obligations and in hopes of appeasing international financial markets, very restrictive fiscal policy orientations (see OECD, 2006a, p.461; Giambiagi and Ronci, 2004) in the line of 'sound finance' regimes were taken. Brazil and Turkey even published quantitative deficit targets to 'tie their hands'. Although Brazil's fiscal policy rule as expressed 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 a '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 need to create the jobs and to fulfil the expectations of the government and the people. The combination of non-accommodating (tentative) monetary policy regimes;

uncoordinated collective bargaining settings decentralised with sometimes strong 'local pushfullness' at the company level (South Africa); 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 Table 1).

4 Some empirical evidence on SABT's market constellations

Before we will take a closer look at the empirical evidence for the explanations put forward here, let us first extract some hypothesises: We would not only expect

- A relatively[18] low growth rate and high unemployment for SABT as already established, we would also expect.
- Relatively[19] high real interest rates, which will cause.
- 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.
- As interest payments will be high. This type of fiscal-monetary conflict usually carries with it a low and falling public investment rate.
- Moreover, inflation will be relatively high, even though the SABT's central banks take a non-accommodating stance. This is mainly so because.
- Nominal Unit Labour Cost (NULC) is 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.
- To find traces of cooperative behaviour in fiscal, monetary and wage policy stances.

4.1 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 and Farrell, 2002). Their high average level since 1995 (see Table 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 and Muellbauer (2006) partly blame a monetary policy strategy based on exchange rate targeting (during the earlier part of the 1990s) and partly a country-specific risk premium. Kahn and Farrell (2002, p.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 that manage to produce much lower real interest rates (in absolute terms as well as in terms of growth-interest rate differentials;

see Table 5(a)) without sparking unacceptable inflation (not shown in Table 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 paid 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 Table 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 emphasised – 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. Again, comparison with China (comparative data on capital formation in Malaysia is not available) substantiates the claim that the rate of accumulation in SABT was, nevertheless, insufficient.

4.2 Budget balances and public investment

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

Table 5(c) shows some striking features: the regime shift towards an extremely restrictive fiscal policy stance is detectable in all three countries in both primary as well as overall public balances. In Brazil, the 'Collor Plan' sub-period was cushioned by a relaxation in fiscal policy, whereas in Turkey overall fiscal balances in the most recent sub-period were 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, which resulted from monetary restrictions. 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*			
(*a*) *Short-term real interest rates 1990–2007*								
							China	*Malaysia*
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*								
	Overall	*Primary*	*Overall*	*Primary*	*Overall*	*Primary*		
1990–1994	–4.0	NA	–14.9	3.4	NA	NA		
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) 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) 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) – = deficit; NA = not available.

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

(d) Data for Turkey only 2004–2007; NA = not available.

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

(e) 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 et al. (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 is jeopardised by the very objective of fiscal adjustment, public debt reduction.

Table 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.

4.3 Wage setting and inflation fighting

SABT have seen some success in taming inflation by tying the hands of its central bankers either by way of exchange rate or IT 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, 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 becomes an internal nominal anchor.[22] Yet, that which is crucial for stability in a world that does not oscillate around a natural unemployment rate also 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 and Soskice, 2006, p.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 Table 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 also well established (see e.g., Aron et al., 2003; Burger and Marinkov, 2006) as well 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 et al., 2003). Finally, there are several empirical traces of local pushfullness and 'insider behaviour': Burger and Marinkov (2006, p.183) as well as Nell (2000) find a statistically significant relationship between the output gap and the change in the output gap, on the one hand, and the inflation rate, on the other, but only in

an upward direction. And, Aron et al. (2003, p.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 Non-Accelerating Inflation Rate of Unemployment (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 and 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 tripartite '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, 1996 for Turkey and Carneiro and 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 – indicates that only Brazil's NULC developments may be compatible with the price stability regime of a 'tentative' central bank.

4.4 Traces of policy coordination?

As demonstrated in the theoretical part earlier, a functional market constellation can best be expected to prevail under conditions of cooperation among the macroeconomic actors (procedural norm). To evolve and stabilise, cooperation needs an institutional setting, which allows not only for communication among the actors but also for 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 et al., 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 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." (Swanepoel, 2004, p.734)

Having highlighted the need for coordination and the consequences of its failure, Swanepoel convincingly shows that the macroeconomic policy mix in post-apartheid South Africa has been uncoordinated. Moreover, the lack of coordination appears to be

more pronounced in times of slack growth than in times of prosperity. The 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, shortcomings in the institutional set-up or simply ignorance in statutory objectives 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.

5 Market constellations in comparison: Anything to learn? Concluding notes and policy recommendations

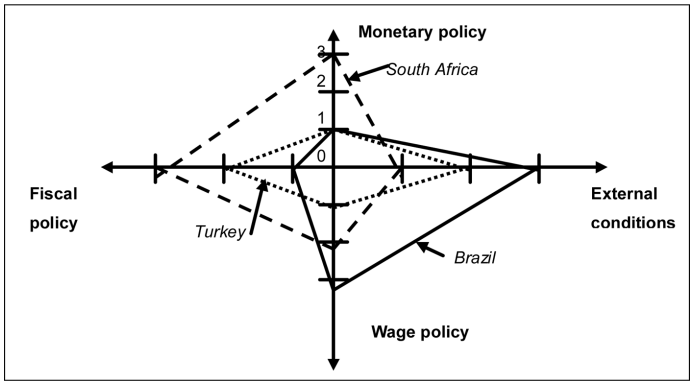
This study set out to answer the question whether SABT's macroeconomic governance can be expected to achieve the high growth rates that the countries need to deal with their fierce unemployment and poverty problems, to allow them catch-up with the per-capita GDP of highly developed nations and to make them global growth engines of the 'After-Depression era'. To make sense of this kind of investigation, a theoretical model had to be chosen different from the neoclassical world of general equilibrium with its ineffective macroeconomic policy postulates. 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 macroeconomic policy stance (the 'Washington Consensus') that is ideologically founded 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 fiscal policy based on 'sound finance' principles and an uncompromising wage policy based on decentralised, locally pushfull collective bargaining structures and indexed minimum wages caused a non-cooperative Nash equilibrium, which tailored a far too narrow macroeconomic coat for SABT.

This very general judgement can now be further specified. In Figure 3, an attempt is made to visualise the comparative policy stances of the SABT countries in a radar chart (see Bogan and 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 earlier, a fourth dimension – 'external conditions' – is added 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, whereas in South Africa and Turkey the current account turned heavily into deficit. A gradual decline of the Real Effective Exchange 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, p.29, 2008a, p.29, 2008b, p.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 solely qualitative, no exact quantitative differences, the overall ranking matches the relative development established in Table 3. We are painfully aware that this level of empirical testing is not very sophisticated, yet this is as good as it gets until internationally comparable data on inflation, output gaps and on structural (primary) fiscal balances become available for periods long enough to draw reliable conclusions. 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.

Figure 3 Radar chart of comparative policy stances



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 the 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 particularly 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 addressing supply-side constraints (shortcomings of infrastructure, shortages of skilled labour, regulatory deficiencies) very much in line with recommendations provided by the OECD for Brazil and Turkey (see OECD, 2006b, 2008b). Although supply-side constraints may exist, their elimination will not be enough unless the macroeconomic coat allows for higher per-capita growth. The recommendation derived from our study is to re-design the existing tripartite institutions of social dialogue into an effective body that turns assignment into cooperation by establishing, monitoring and sanctioning policy rules along the lines explained earlier including active,

yet sustainable fiscal policy in a 'capital budgeting' orientation, monetary policy as 'employment-augmented' IT and wage policy oriented towards NULC stability. As such a cooperative strategy is based on the credible assumption that price stability and fiscal sustainability are not sacrificed, it cannot be ruled out that the pro-growth market constellation advocated here needs a preceding sequence of credibility build-up. However, it is high time that this period comes to an end in SABT and that the 'times of cooperation' are announced.

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Notes

[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 are such factors as spending on education, research and development and the potential to enhance social capital; see e.g., Routledge and von Amsberg (2002).

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

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

[5]See e.g., Heise (2006, 2008), Fritsche *et al.* (2005) and Priewe and 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) and Palley (1996) among others.

[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 *et al*., 2005). To prevent confusion, we hold on to 'market constellation', as the notion of 'regime' has been used by the French 'Regulation School' and the USA 'Social Structure of Accumulation School' in a different way.

[9]See Heise (2006, 2008) and Heine *et al*. (2005) for the definition of 'dysfunctional' market constellations.

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

[11]See Dullien (2006).

[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.

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

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

[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 which must be executed by the government.

[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 and 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.

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

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

[20]Gibson and van Seventer (2000) as well as Aron and 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 refers to a situation of fundamental uncertainty.

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

[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).

[24]One should keep in mind that the radar chart in Figure 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.