

Comment

Reply to JP van den Heever's comment on 'Towards a growth strategy for the South African economy'¹

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In Van den Heever's view, our article fails to escape the surly bounds of the old debate between supply-siders and demand-siders. If it was true, this would be a devastating criticism, since it is precisely this dichotomy we have sought to overcome. We would be first to agree that rigid supply-side or demand-side economics both lack 'nuance and finesse'. Demand-siders wistfully assume that real resource constraints never impose themselves, while the opposition focuses on a long run that may never come, unless, of course, some attention is paid to short-run demand management. Reality, as the saying goes, is somewhere in between, and this is why we chose to model a mix of demand-side and supply-side motifs in our article. The exact proportions of the mix may not be to Van den Heever's liking, but it is inaccurate to suggest that the undoing of the orthodox model in 'Towards a growth strategy' was merely a partisan attack on behalf of demand-siders. Only the most dogmatic and vigorous defenders of the orthodox model would see our eclecticism as a threat.

Van den Heever contends that we were wrong to assume that the South African Reserve Bank anchors the exchange rate. For the record, it is certainly correct that the exchange value of the rand is essentially determined by market forces, with an occasional intervention by the central bank to smooth out 'excessive' short-run fluctuations. Variations in the exchange rate are due to imbalances between exporters and importers, amplified by international capital movements. Since we could not effectively model the worldwide demand for South African assets, the endogenous determination of the exchange rate was beyond the scope of the model. We elected instead to hold the real exchange rate constant and link the interest rate reaction function of the Reserve Bank to the trade

1. *Development Southern Africa*, 13(4), August 1996.

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