# THE CRISIS IN SOUTH AFRICA: NEOLIBERALISM, FINANCIALIZATION AND UNEVEN AND COMBINED DEVELOPMENT

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It is now widely accepted that neoliberalism has entailed a global class project to shift the balance of economic and social power in favour of capital and away from labour. Neoliberalism is complex and uneven, ranging across economic, social and political dimensions, raising doubts over whether it is a legitimate term analytically or strategically. It has varied in time, space and issue, yet perpetuated its own economic and social mythologies – a truly variegated capitalism with corresponding varieties of neoliberalism. Its ascendancy within nation-states (particularly Britain and the US) and international institutions is rooted in the collapse of the postwar boom and ensuing economic crisis of the 1970s, but its establishment as the dominant ideology and policy practice was only possible as part of a broader conjuncture including the collapse of the former USSR, alternative development projects in the South, and retreats by labour and social democracy. In spite of this multi-dimensionality, we would suggest that the nature of neoliberalism cannot be understood without an examination of the processes and influences of what is now commonly, and increasingly, referred to as 'financialization'. Finance has been a critical, even definitive, component and mechanism underpinning and perpetuating neoliberalism.

Financialization as a term is associated loosely with the proliferation of financial markets, institutions and actors that have emerged since the collapse of Bretton Woods. Under this broad term is included the increasing importance of institutional investors; the expanding range of financial activities in the economy; the proliferation of financial services and instruments, and financial institutions and markets, including the now infamous sub-prime mortgages. It has also witnessed huge rewards to those involved in finance, and widening inequalities against previous trends, together with the penetration of finance into ever more areas of economic and social reproduction. This expansion and extension of the financial sector is well documented. The value of financial assets in the US grew from four times GDP in 1980 to ten times in 2007 and the ratio of global financial assets to global GDP has risen threefold from 1.5 to 4.5.[1] Rising incomes from financial investment have lead Martin Wolf to write: 'The US itself looks almost like a giant hedge fund. The profits of financial companies jumped from below 5 per cent of total corporate profits, after tax, in 1982 to 41 per cent in 2007.'[2]

But financialization is much more than simply the proliferation of financial markets and assets. Critically, non-financial companies have diversified into and gained an increasing share of profits from their financial activities, a development accompanied by the increasing financing of investment from retained earnings or borrowing on open markets. In many ways, this dynamic is the opposite of that presented by Hilferding in *Finance Capital*, where he analysed a developing fusion between financial and industrial capital.[3] Instead, financialization (in part) reflects the separation of industrial capital from finance capital in the form of the banks, and the increasing financialization of industrial corporations themselves which, in turn, has induced the refocusing of investment banks towards gaining profits from providing financial services to individuals.[4]

The spreading and individualization of debt, in part to compensate for three decades of stagnant or falling real wages, has become critical to maintaining demand. Consumption is increasingly based on credit, particularly through the use of capital gains in housing as collateral. The growth of personal household debt is extraordinary. In the USA, household debt was 48 per cent of GDP in 1981, in 2007 it was 100 per cent.[5] Financialization, then, is not just about capital, it is about labour. Rising debt has been combined with riches at the top. Income distribution in the US has returned to its peak levels of 1929, with the top 1 per cent of earners taking 23 per cent of income share.[6] We also see the increasing external debt of emerging or middle-income economies. And, while the developing world in particular has not been affected so much directly by contagious toxic assets but by falling demand for exports, foreign direct investment, aid and migrant remittances, nonetheless financialization has been important, as we demonstrate through the case of South Africa, where financial interests have influenced policy and affected class formation. In addition, many commodity markets have become increasingly financialized, with speculation affecting their volatility (not least food and energy). And, critically, we see growth in the world economy led by speculation and a series of speculative bubbles – thus financialization is affecting the rhythm and pace of accumulation.

How do we situate these interconnected developments within Marxist theory? Marx makes two useful distinctions. The first is between interest-bearing capital and other forms of capital, whether they are in production or exchange. And the second is between the real accumulation of capital through the extraction of surplus value in production and the accumulation of fictitious capital – paper claims on surplus value yet to be produced but traded in financial systems. The overall balance between these two forms of accumulation is historically determined, contingent and complex in the light of the portfolio of domestic and international forms it takes.

The neoliberal period has witnessed *both* the subordination of real accumulation to fictitious capital – with the expansion of speculative assets at the expense of real investment – *and* the integration of real accumulation into the realm of interest-bearing capital, resulting in financialized accumulation of a systemic nature. This cannot be separated from developments such as state-led economic and social restructuring, or the spread of privatization, which have further amplified the economic and social importance of financial assets. These developments have been accompanied by broader ideological shifts in politics and identity, with the decline of collective transformative projects and democratic participation and governance increasingly attached to the market and finance, with promotion of citizens as consumers and consumption as the means to self-realization.

The global balance of class forces has thus shifted in two senses: from capital to labour, and from some forms of capital to others. This is not the same as arguing that neoliberalism amounts to the return of a class of rentiers. And while heterodox explanations of the crisis, such as provided by Minsky, have much to offer, they are insufficiently rooted in the class dynamics and political economy of capitalism outlined above.

In sum, financialization:

- reduces overall levels and efficacy of real investment as financial instruments and activities expand at the former's expense, even if excessive investment does take place in particular sectors at particular times;
- prioritizes shareholder value, or financial worth, over other economic and social values;
- pushes policies towards conservatism and commercialization in all respects;
- extends influence, both directly and indirectly, over economic *and* social policy; and
- places more aspects of economic and social life at the risk of volatility from financial instability.

There are other, unforeseen consequences of neoliberalism which have affected the uneven and combined development of capitalism on a world scale. The relaxation of exchange controls has made many economies vulnerable to capital movements and created a pressure to build up high levels of reserves as a safeguard. At a global level, then, we see the USA's enormous balance of trade and payments deficits and, on the other hand, the holding of US dollars as reserves, particularly but far from exclusively by China. The US dollar has not collapsed, despite the country's deficits and minimal interest rates – despite not having adopted the sort of policies inflicted on others with similar deficits. And, whilst financialization is associated with slowdown in general over the period since the end of the postwar boom, there have been pockets of development for those who have sheltered themselves from the more dysfunctional forms of finance, used the state to promote (private) real accumulation, controlled wage increases relative to productivity increase, and found both domestic and international markets to serve. China is the most glaring example now, but the East Asian 'developmental states' preceded it. With some sectoral exceptions around its core and traditional areas of mining and energy, South Africa provides an example of the precise opposite of this form of capitalist development.

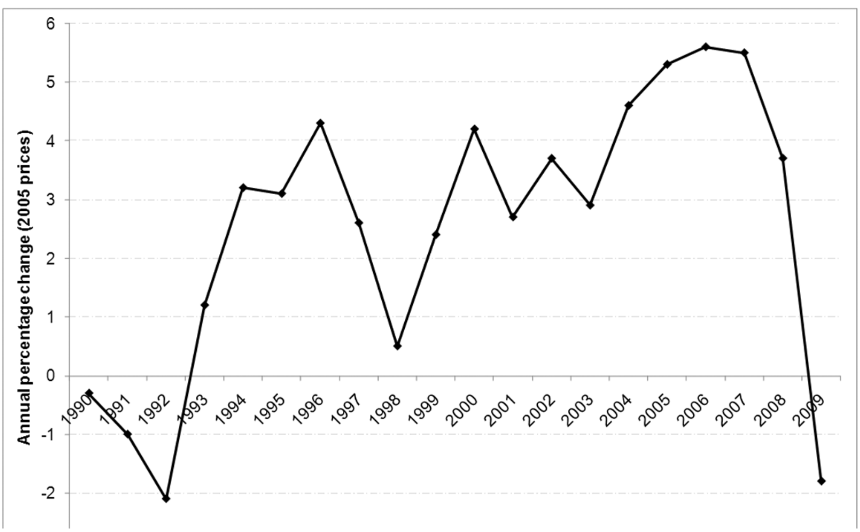
## HELLO RAINBOW NATION

South Africa is now, 'officially', the most unequal society in the world – though there seems to be a macabre rivalry with Brazil for this status.[7] The poorest 20 per cent of South Africans receive 1.6 per cent of total income while the richest 20 per cent benefit from 70 per cent according to the South African Government's Development Indicators 2009.[8] In the most recent United Nation's Human Development Index of 'wellbeing', South Africa fell one place to 129th out of 182.[9] Before the global economic crisis, South Africa had one of the highest unemployment rates in the world. It now officially stands at 35.4 per cent or one third of the workforce.[10] The continuing relevance of Marx's notion that capital generates and draws upon a reserve army of labour is surely demonstrated by South Africa, though Marx could not have foreseen its members would struggle to survive in the context of the highest levels of HIV infection in the world.[11] This helps explain why, according to the UN, average life expectancy for South Africans is just 51.5 years, even though South Africa is classified as a middle income economy.[12]

How are we to situate these and other developments within a broader analysis of the political economy of South Africa since the defeat of apartheid? We argue that it is necessary to examine the specific form that neoliberalism and financialization have taken in the region, and how wider changes in the world economy and capitalist development have interacted with the legacy of the apartheid past. Global accumulation and its shifts and restructuring are necessarily mediated by the structure of particular economies and forms of class rule. We characterize the system of accumulation in South Africa as a 'Minerals-Energy Complex' (MEC) where accumulation has been *and remains* dominated by and dependent upon a cluster of industries, heavily promoted by the state, around mining and energy – raw and semi-processed mineral products, gold, diamond, platinum and steel, coal, iron and aluminium.[13]

In the context of South African production, financialization has produced a particular combination of short-term capital inflows (accompanied by rising consumer debt largely spent on luxury items) *and* a massive long-term outflow of capital as major 'domestic' corporations have chosen offshore listing and to internationalize their operations while concentrating within South Africa on core profitable MEC sectors. The result, even before the impact of the current crisis, was a jobless form of growth and the persistence of mass poverty for the majority alongside rising living standards for a small minority, including new black elites. Figure one shows annual GDP growth.

**Figure 1: Annual GDP growth rate in South Africa 1990-2009**




(Source: SARB 2009)

The effect of the crisis in South Africa, like many developing countries, has been felt primarily through falling global demand. In South Africa this has hit mining and manufacturing sectors but has also been accompanied by a steep fall in liquidity and a version of the credit crunch characteristic of Western economies. All of this has only served to intensify inequality with the biggest recession in 17 years yielding:

- The loss of almost 1 million jobs over the course of 2009;
- A 3 per cent fall in GDP between the end of 2008 and mid-2009;
- Output in the mining sector fell by 33 per cent in the final quarter of 2008, the biggest decrease on record;
- A 50 per cent production cut in the car industry in January 2009, the worst ever recorded, according to the National Association of Auto Manufacturers;
- A record 21.6 per cent year-on-year fall in manufacturing production announced in April 2009;
- Total manufacturing production declined by 4 per cent in the fourth quarter of 2009 with the biggest sub-sectors hit hardest: autos, basic chemicals and fabricated metal products. Manufacturing production at the start of 2010 remained below 2005 levels;
- A wholesale collapse in private sector credit extension from the third quarter of 2008 to mid-2009. It has picked up subsequently but growth in credit extended to the private sector was at 1.5 per cent in September 2009, the lowest rate for 43 years;
- Consumer spending shrank by around 5 per cent in the first half of 2009, its biggest contraction for 13 years, producing redundancies across the retail sector;
- The value of South Africa's exports fell by 24 per cent in the first quarter of 2009, increasing pressure on the current account deficit, 7 per cent of GDP;
- A *recovery* in the value of the Rand – the single most traded emerging market currency – by about 20 per cent over the course of 2009.[14]

## SYSTEMS OF ACCUMULATION AND THE MINERALS-ENERGY COMPLEX

These short-term and most recent developments are not simply the more or less predictable response to the global crisis. They signal the continuing centrality of mining to the South African economy, something that should come as no surprise from a historical perspective, since mining has long been fundamental to capitalism in the subcontinent. South Africa remains rich in mineral reserves and is the richest nation in the world by 'commodity wealth' according to Citigroup, which estimates its mineral reserves are worth $2.5 trillion.[15] In this light, South Africa's MEC can be understood as a specific instance of a *system of accumulation*. In narrow terms, this can be understood as a core set of industrial sectors which exhibit strong linkages with each other and weak linkages with other sectors. Understood in this narrow sense, this is compatible with technocratic conceptions or possibly 'resource-curse' type arguments, particularly if the notion of the MEC is removed from the broader 'parent' notion of a system of accumulation. In the Marxist frame, however, the idea provides a bridge between the abstract tendencies of the capitalist mode of production and the reality of the production and reproduction of capitalist social relations in specific time and place – i.e. the variations in how the political economy of capitalism is put together and the critical role played by the state in the process.

A system of accumulation develops through the historically contingent linkages which develop between different sections of capital – including finance – and their interaction with the state. These core industries influence the development of other sectors and so indicate a specific form of industrial development. In the case of South Africa's MEC then it is not simply the weight played by the mining and energy sectors but also their determining role throughout the rest of the economy. One merit of this approach is its capacity to conceive of the state and the market as integral parts of a capitalist whole in marked contrast with other approaches, such as those based on notions of the developmental state that, whilst useful as a counter-critique of neoclassical approaches to development, systematically separate and oppose state and market as analytically prior and given.[16]

The MEC has defined the course of capitalist development in South Africa since its minerals revolution of the 1870s, upon which extraction came to be based on the extreme exploitation of black labour, achieved through a system of migrant labour. The discovery of precious metals and minerals produced a rapid inflow of 'English' or 'foreign' capital that quickly established control over the mining industry. Within two decades mining activities accounted for close to 60 per cent of exports from the region. The dominance of mining, and its need for large-scale capital investment (due to deep and dispersed gold deposits) rapidly produced concentration in mine ownership in the hands of six finance houses or producer groups which consolidated their stranglehold over production, distribution and marketing through the Chamber of Mines.[17]

The process was facilitated by an uneasy compromise between Afrikaner political power and foreign economic control and ownership of mining capital. State corporations, especially for steel and electricity, served the

MEC, as did labour control. But policies for diversification of industry out of the core MEC base remained weak. In the 1960s, however, the emergence of an Afrikaner mining house was negotiated (anticipating later black economic empowerment), and certain dysfunctions between large-scale capital and the politics of state intervention were eroded. There was potential for a 'developmental state' sort of strategy. But the 1970s witnessed the collapse of the post-war boom raising prices of both gold and energy (in the wake of the oil crises), thereby consolidating state-conglomerate strategy around MEC core sectors.

This was followed in the 1980s by the gathering crisis of apartheid itself. Yet the effect of sanctions was paradoxical. Exchange restrictions mostly confined domestic financiers to the domestic economy, forcing them to invest in established MEC sectors and acquire the foreign subsidiaries made available by disinvestment. The quantity and range of the conglomerates' holdings multiplied, while the mining industry remained a staple outlet for 'trapped' domestic finance. As a result, the ANC government inherited a highly developed financial system for a middle income country. But rather than channel investment into productive activities and the accumulation of capital stock, investment was increasingly channelled into the acquisition of financial assets under the control of, and/or with close links to, the conglomerates with origins in mining. This pattern not only reflects the general trend in financialization across the globe, but also informed the specific form of restructuring of South African conglomerates since 1994.

Both the apartheid *and* the post-apartheid eras have failed to diversify out of this core base in the MEC, and the strategies pursued by dominant MEC corporations, and their interconnection with and influence over state policy, have continued to be critical in determining the path of economic development. With the central role occupied by the MEC throughout the rest of the economy, manufacturing has thus been confined to a relatively limited number of industries around primary production and has remained weak in the development of capital and intermediate goods sectors – other sectors, especially consumer goods, only surviving through protection. So, whilst 'manufacturing' was the principal contributor to GDP in the 1990s, its sectoral contributions remained closely linked to the mining and energy sectors. The failure to develop light manufactures and other labour-intensive industries has resulted in deeply entrenched levels of unemployment. In 1994, South Africa had an unemployment rate of 20 per cent (31.5 per cent if discouraged work seekers are included) concentrated amongst low- and semi-skilled black workers.[18] This was soon compounded by secular declines in employment across both gold and agriculture.

## THE MEC POST 1994: FINANCIALIZATION AND CRISIS

The negotiations to end apartheid were in the event premised upon the achievement of political equality whilst leaving the structure and functioning of the economy intact. Yet, of course, if white capital was to be untouched how was capitalism in South Africa to be de-racialized, never mind decent living standards achieved for the majority? The transitional compromise removed questions of wealth redistribution from the agenda and confined the settlement to narrowly political and constitutional issues, the establishment of bourgeois order, democratic rights and liberal democratic structures. And, whilst white capital for a time thought that the National Party was necessary as a bulwark against the radical demands of the ANC, it quickly became clear that no such assistance was necessary, as the ANC proved itself committed not only to capitalism but to its neoliberal form also. This meant leaving behind the programme of nationalization enshrined in the ANC's own Freedom Charter but also other interventionist policy measures and approaches designed to address the structural legacies of apartheid. White capital, the National Party and the ANC leadership increasingly came together around the pursuit of economic growth through 'competitiveness', faith in private sector investment, liberalization, privatization, Central Bank independence, etc.[19] Zac De Beer's nightmare, that the 'baby of free enterprise' might be 'thrown out with the bathwater of apartheid' – was not to come true.

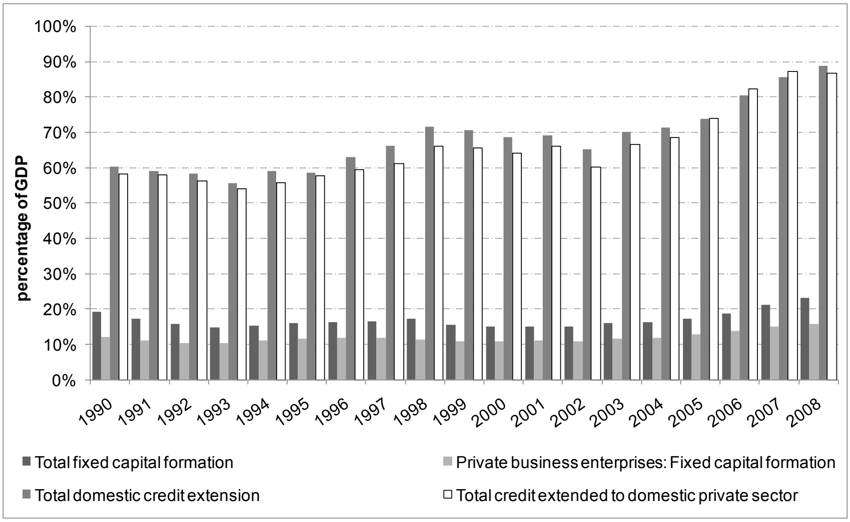
The shift in part reflected the nature and inherent limitations of national liberation movements. It reflected also changing global conditions and thinking which meant that the National Party itself in its dying years had come to accept neoliberal orthodoxy in its policy prescriptions for the economy. These new conditions meant that white capital sought not only security of property rights and market relations in the new order, but also the right to internationalize and financialize its operations and to act as global 'players'. There was, in addition, both pressure and persuasion from Western governments and international financial institutions which saw a string of ANC economic advisors and leading figures receive training at business schools and international banks in the tenets of neoliberalism and workings of financial markets.[20] Prospective new black capital joined in. And whilst the marginalization of the white far right was a welcome development,[21] the Government's adoption of the non-negotiable Growth, Employment and Redistribution programme (GEAR) in 1996 signalled the crude resolution of any conflict over policy and the full embrace of neoliberalism. GEAR emphasized fiscal austerity, deficit reduction and pegging taxation and expenditure as fixed proportions of GDP. Through GEAR, the Government's stated macroeconomic priorities became the management of inflation, the deregulation of financial markets, tariff reduction and trade liberalization as well as limiting government expenditure. The irony is that while the rationale for these policies was to attract foreign direct investment, their actual effect was to increase the outflow of domestic capital – even while the hoped-for investment inflows failed to materialize.

The period of GEAR saw:

- the overnight abolition of tariff barriers which decimated much (black) labour-intensive manufacturing and increased unemployment;
- the easing of capital and exchange controls, enabling the conglomerates to relocate to the world's leading financial centres, thus increasing their capacity to tap global equity markets, export capital and discipline the state;
- corporate 'unbundling' in which diverse holdings and subsidiaries established during apartheid era have been broken up, sold-off where they are weak or amalgamated where considered to be internationally competitive, thereby nominally reducing conglomerate concentration but increasing concentration within sectors;
- Lack of domestic investment outside core MEC sectors, reinforcing dependence on mining exports and the crisis prone nature of the Rand in light of dependence on short-term capital inflows and permissiveness to outflows;
- Growth of the retail sector as it has expanded into black areas and also of services alongside casualization and informalization, although the informal sector remains small relative to other developing economies.[22]

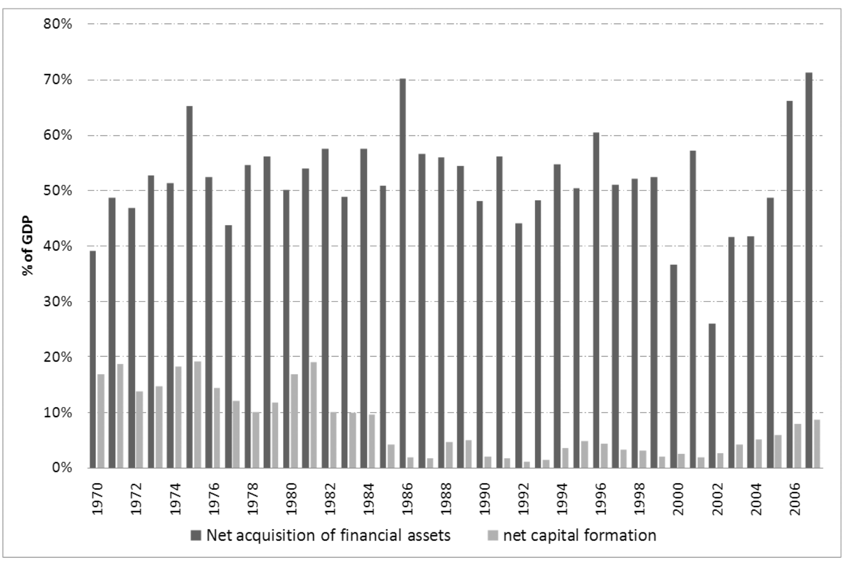
High interest rates also acted to impede domestic investment. In addition, the high interest rates adopted as the government tightened monetary policy to reduce inflation have attracted an increase in short-term capital inflows into South Africa through the private financial sector.[23] The short-term nature of capital inflows has also affected the time horizons on lending by domestic financial institutions. The vast bulk of these inflows of capital have been channeled towards financial speculation and the extension of private credit to households. Figure 2 shows the expansion of domestic credit since the 1990s. Albeit with a dip in 2002, domestic credit extension increased from less than 60 per cent of GDP in 1994 to just over 85 per cent in 2007. The expansion of credit has not been reflected in increasing physical investment as corporate business enterprises allocate increasing shares of their total investment towards the acquisition of financial assets (Figure 3).

**Figure 2. Credit extension and investment as percentages of GDP**



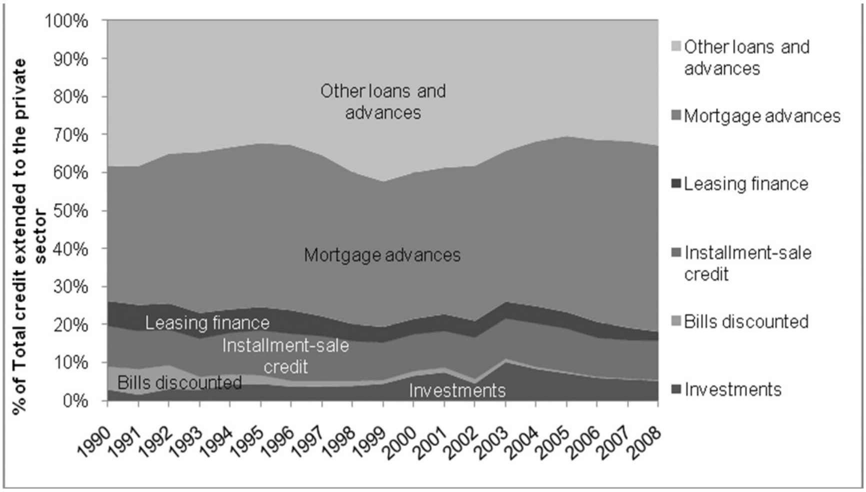

*(Source: SARB 2009)*

**Figure 3. Comparing net capital formation and the net acquisition of financial assets as a proportion of GDP 1970-2007**




*(Source: SARB 2008)*

**Figure 4. Private Sector Credit Extension by all Monetary Institutions**




*(Source: SARB 2009)*

Figure 4 shows a breakdown in the uses of expanded credit to the private sector. Over 90 per cent of domestic credit extension has been channeled into consumption, with mortgage loans making up the highest share, supporting a South African house price bubble. The growth of household debt has underpinned second-home buying, a huge property bubble has emerged with a 389 per cent increase in property prices between 1997 and 2008.[24] In the wake of the collapse of the sub-prime market in the US, South African banks reduced their debt to asset ratios, and South Africans experienced their own credit crunch of sorts. An immediate impact of this credit crunch was an increase in the repossession of cars and homes. The extension of credit for leasing finance contracted by 36.9 per cent between January 2007 and September 2009. Car repossessions increased by 75 per cent in the 12 months prior to July 2008, and banks also struggled to sell repossessed homes.[25]

The expansion of credit had supported a boom in the wholesale and retail sector and also in personal services. Output from the wholesale and retail sector doubled between 2000 and 2007, and the number of jobs increased by over 30,000. But the employment generated in the retail and services sectors has been of low and semi-skilled workers. The subsequent contraction of wholesale and retail and personal services sectors that has taken place with the crisis has lead to large-scale redundancies amongst low paid, low skilled workers alongside the significant job losses in manufacturing. In stark contrast, the financial sector saw a 3.1 per cent increase in employment levels for the same period covering the official onset of the recession in South Africa.

Thus, whilst the crisis has impacted upon the South African economy through traditional transmission mechanisms and its own form of credit crunch, it has done so in ways that remain rooted in its own peculiarities. The financial sector has been the fastest growing in the post-apartheid period, now occupying as much as 20 per cent of GDP or, more exactly, appropriating one fifth of GDP and claiming this to be a contribution to economic activity. Meanwhile, 40 per cent of the population remain entirely without access to financial services of any sort, both directly and indirectly (in jobs delivered) in view of the appallingly low levels of investment.

The broad thrust of economic developments and economic policy since the end of apartheid has been to manage the globalization and financialization of South Africa's domestic conglomerates, whilst sustaining their profitability on core activities within the domestic economy itself. In particular, high interest rates have allowed for short-term capital inflows to compensate for long-term capital outflows, and exchange controls have been successively diminished to prevent the Rand from collapsing at the expense of Rand-denominated capital exports. The consequences for all aspects of economic performance have been significant, not least with fiscal restraint, and levels of investment running around a mere 10 per cent of GDP (whilst calculations of illegal and poorly monitored capital flight run at 20 per cent or more of GDP)!

## FINANCIALIZATION AND BLACK INTEGRATION INTO THE RULING BLOC

The ANC's capacity to change South African society has thus been very limited. South Africa remains an extreme case of uneven and combined development: an advanced industrial economy and first world lifestyles exist with abject poverty and unequal social relationships and resource distribution of all kinds. The picture of slow growth, declining investment, rising unemployment, rural degradation, and income and wealth inequality that revealed the key features of the economy towards the end of the 1990s remains little changed over a decade later. The terms of the post-apartheid settlement, the establishment of liberal democracy and political rights alongside economic inequality and with property ownership intact, have been combined with intensive globalization, financialization and corporate restructuring of the economy.

But this has bequeathed to the ANC – within it own narrowing field of political vision – a contradiction: how to develop 'black capitalism' in the context of extreme uneven and combined development, when property rights are unchallenged and redistribution is off the agenda? Segregation and apartheid deliberately restricted the development of black capitalism. The formation and incorporation of a small new black elite in South Africa, often out of former trade union leaders and political activists, has been an important part of the changes which have occurred since 1994. This has involved both intra-capitalist class relations and race relations, with around 10 per cent of the country's top 20 per cent of high earners estimated to be black. 'Black Economic Empowerment' (BEE) deals worth R55 billion were recorded for 2005.[26] However, this new black elite is both highly financialized and often highly dependent upon the state. Its enrichment is notable for involving neither land (other than reallocated mineral rights as opposed to agriculture) nor, in general, productive activity. And, overall, white ownership and domination of the economy remain intact. For example, the proportion of the Johannesburg Securities Exchange market capitalization identified as controlled by 'black-influenced' business groups was 9.6 per cent in 1998, 3.5 per cent in 2002 and 5.1 per cent in 2006.[27]

Its members have derived and benefited from a number of developments. There are individual black managers and executives, nurtured as business has tried to develop a 'black face', but these remain small in number. Estimates for 2005 suggest that of JSE listed companies, under 10 per cent have black executive directors.[28] New black directors frequently sit on many boards and many BEE deals involve the same people again and again. In its initial phase in particular, 'empowerment' was measured through increasing ownership by blacks. Existing white-run conglomerates sold off subsidiary companies and/or shares to black business through deals struck by a host of 'empowerment companies' that often used 'Special Purpose Vehicles' to offer preferential shares to institutional investors (who were paid a dividend linked to the prime lending rate). Black groups, thus, essentially became investment trusts and, as such, were highly vulnerable. Around the time of the Asian financial crisis of 1997/8, falling stock prices and rising interest rates meant many could not repay the loans they had taken out to purchase shares.

From the early 2000s onwards the government moved away from narrow equity ownership criteria to charters for specific industries and more of a 'scorecard' approach encompassing broader criteria, dubbed Broad Based Black Economic Empowerment. Difficulties, however, remain. Concentration of activity upon few firms in specific sectors of the economy means it is difficult for new firms to enter except through acquisition, with the notable exceptions being growing sectors such as mobile telecommunications, media, IT and healthcare.[29] The privatization and transfer of formerly state assets to black business interests is also a potential area of growth for blacks, in a way not dissimilar to the new elites created by privatization in Russia and elsewhere in Eastern Europe. But the most glaring feature of privatization in South Africa is its limited extent. The telecommunications company TELKOM and the transport giant Transnet are now 'partnerships' with foreign capital and BEE owners. But privatization and class formation seem to clash as goals, given that opportunities within parastatals have proven greater for the new black elite, and white-controlled conglomerates remain shy of funding a privatization programme (as they must at least in part) in deference to shifting their resources abroad.

A major area of growth lies in the granting of state and local government contracts or tenders to black business groups, particularly in the construction industry and also in mineral extraction. Government tenders are worth R120 billion a year. These kinds of deals often reveal the financialized and internationalized nature of the BEE elite. Take the building of the 'Gautrain' for example. This (expensive) express train service now runs between Johannesburg, Pretoria and OR Tambo airport and was built by a South African multinational, the British wing of a Canadian/German multinational and a French multinational brought together by a 'black empowerment company' created specifically for the purpose in a public-private partnership with Gauteng Provincial Government.[30] In this way, many BEE beneficiaries are essentially white even if activities are beneficially black-fronted. This aspect of 'black empowerment' is highly significant, not only in symbolic terms, but in revealing how such 'empowerment' benefits from links with international capital and does not create a productive class within South Africa.

South Africa is obviously not alone in the use of state assets and resources to promote private accumulation. Generations of African exclusion means that political office is highly important to promoting class formation. Corruption is the result, in its many forms, though far less endemic in South Africa than many other post-colonial societies. Yet, in broader terms, black capital remains systemically weak if politically powerful.[31] And so deep contradictions remain for the state – not only how to develop black capitalism when so much white economic power remains but also how to deliver on the inheritance of apartheid, quite apart from 'good governance' and transparency, at the same time as rapid advancement for black elite groups. The effects of the economic crisis have not assisted in resolving such conundrums, but the problems are far more deep-seated.

## CONCLUDING REMARKS

The crisis has taken a huge toll on workers and the poor in economic and social terms. It has also led to belt-tightening amongst the middle class. But it has not led to any profound alteration in the structure of economy and society. Business as [un]usual in many ways remains the order of the day, with the deepening of impoverishment and worsening inequalities that barely remain addressed. The political transition from Mbeki to Zuma has involved a degree of recognition of the limitations of GEAR and the neoliberal model, with a (fanciful) debate about whether and how South Africa could become a 'Developmental State' emblematic of this shift. However the record of the Zuma government's first year is poor with little major legislation put in place. Zuma seems content to strive for membership of the BRIC group of nations (to go alongside honorary membership of the G20) – again fanciful given the size of the South African economy – and using the 2010 World Cup both to support such a bid and to act as a repeat of the rugby World Cup (though with much lesser chance of victory). The newly established National Planning Commission and Economic Development Department have, in the space of a year, done little more than name their respective lists of advisors. And any challenge to vested interests, and certainly those of the mining companies, has remained off the agenda. As such, the MEC and its associated command of economic and social life remain pervasive.

These developments need to be located in broader global trends as well as those specific to South Africa and its liberation struggle. The role of global and domestic capital can only be understood if situated in the evolving impact of financialization on the world economy. Globally, the financialization associated with neoliberalism has witnessed the elevation of financial elites, most notably in, but not confined to, the US and the UK. This rise prevails across almost every economic, political, social and ideological indicator. In developing countries, there is the added twist of both creating financial elites and strengthening their roles. This has had a major impact on politics and governance and, correspondingly, policy. It is, after all, what stabilization and structural adjustment have been about over the period of neoliberalism – not just policies but the personnel (with corresponding rewards and interests), institutions and governance to deliver them.[32]

In South Africa, the black elite's incentives to engage in and promote policies for economic and social investments are correspondingly reduced. Paradoxically, then, financialization has the effect of insulating the business and politics of money-making from the imperatives that make it possible – the economic and social reproduction attached to the accumulation of capital. And, by the same token, government is under the command of the

Treasury whose prime result, despite protestations of goals to the contrary in terms of the search for stability and control of inflation, has been to allow for the orderly export of long-term capital. More generally, the extent, nature and mode of policymaking, even where economic and social development has been broached, is marked by acute sensitivity to the need to contain the emergence of alternative politics – public sector provision of housing, for example, brings corresponding organizations and activism for further advance or, at least, resistance against regress, as is overt in the case of free water and electricity in South Africa and the high levels of protests around these.

In the final decades of the twentieth century South Africa brought together the most extraordinarily dislocated combination of forces and trends across time and place. Apartheid offered the most virulent and extreme form of racialized capitalism and, in its final years, had been based in its MEC upon an extraordinarily close collaboration between the state and conglomerate capital, prompting and ultimately delivering a transition highly advantageous to its continuing and shifting imperatives. Yet, the anti-apartheid struggle also spawned a remarkably powerful trade union movement, progressive civil society activism, and a strong left committed to radical change and armed struggle as necessary. In addition, whilst many of these were in freefall or even extinct elsewhere in the world, South Africa's anti-apartheid struggle attracted world-wide solidarity and support on an unprecedented scale (take Palestine as comparator) despite or even because of the uneasy relationship between neoliberalism and democracy and human rights.

In the event, the transition from apartheid has seen the dwindling or dismantling of these progressive forces, and achievements have been desperately disappointing. The significance of the political transition to democracy should not be underestimated, nor the continuing leverage of at least formal commitment to progressive value and politics (compare outcomes in the Middle East or the rest of Africa without unduly homogenising). A President has been deposed in a bloodless coup, with the trade unions still capable of playing a major role in bringing the country to a standstill and shifting personnel, such as the Governor of the Reserve Bank, at the highest levels. But these are token when set against the continuing extremes of inequalities and economic and social deprivations that are most marked, worsening and even sidelined as a normal state of affairs. And whilst there have been shifts in its nature, the MEC and its associated command of economic and social life remain pervasive.

Why has this been so? One answer is to be found in the elevated expectations that are attached to liberation movements that cloak themselves in the doctrines of socialism only to abandon them once more immediate goals of shifts in political regime have been realized. This may now be only of historic interest but is complemented by a second explanation of incorporation of erstwhile progressives through enrichment once in power. The formation of a black elite in South Africa, often out of trade union leaders and political activists, has been a decisive part of the process and has entailed significant intellectual and political retreats and is sickeningly depressing. It has been matched by an equally significant expansion of black employment, opportunities and advancement for at most a minority, primarily through the state, with a corresponding and understandable shifting balance of trade union activity to further material interests as opposed to more fundamental transformative goals, as decline is experienced across the more traditional sources of militancy and organization across mining and large-scale industry.

In the case of South Africa, the intensive globalization and financialization of the economy has involved the corporate restructuring that has enabled incorporation of a black elite. Here the form of enrichment is notable for its lack of productive activity. The black elite's incentives to engage in and promote policies for economic and social investments are reduced to the minimalist imperatives of social, political and ideological containment.

Globally, the first phase of neoliberalism, from the late 1970s to the early 1990s, took the shock-therapy form of the direct state promotion of private capital in general and of finance in particular. The second phase of neoliberalism, still in place if momentarily shaken by the crisis, has involved more extensive and overt state intervention both to sustain financialization and to temper its worst effects, as in public-private partnerships as opposed to privatization. Chronologically, the demise of apartheid coincided with this second phase, bringing the goals of the progressive and interventionist Reconstruction and Development Programme, let alone the Freedom Charter, into conflict with the South African catch-up with the first phase. The adoption of GEAR signalled the brutal resolution of this conflict, not only in that neoliberalism was fully embraced but also the intent of putting the Triple Alliance (of ANC, COSATU and the SACP) under the command and/or outside of government. It is only now, more than a decade later, that the second phase of neoliberalism has been formally endorsed in South Africa just in time to confront the pressing demands of the global crisis.

This commentary suggests that it is inadequate to read off disappointment in the South African trajectory either from the inflexible imperatives of global capitalism or the abject failures and betrayals of domestic politics alone. For one thing, this would leave unexplained why in such favourable conditions for capitalism, it has both suffered a slowdown under neoliberalism and been subject to a crisis that cannot be blamed on the working class and progressive movement demands. Interestingly, however, South Africa is an exception to this, with many commentators blaming high wages, social expenditure and trade union militancy for poor economic performance. It is also essential to situate the role of global and domestic capital and politics in the evolving impact of financialization, whereby the composition of class forces has fundamentally shifted as well as the balance between them and their mode of interaction. Progressive movements and policies are more liable to be marginalized, excluded and repressed than incorporated.

South Africa, then, offers a salient example of the extent to which powerful and progressive movements can be rapidly undone, with the demobilization of civil society, the breaking of strong community organizations and their links with the trade unions and the collapse of much of the left. More hopeful is the renewal of protest, on a huge scale, as a result of anger at government failing to improve or even prioritize basic service delivery to the poorest. The police recorded an average of nearly two 'unrest-related' gatherings a day in the four years to the end of March 2008, and the protests have only increased since. These protests are often disconnected from national political debates, from the radical left, and from a coherent alternative vision. But they point to the vulnerabilities, not only economic, of a system of accumulation which marginalizes so many. For, to the extent that progressive policies can be organized to pursue the meeting of basic needs beyond the barriers of finance, it exposes and challenges the forms of control and power that are inflexible in relation to alternative modes and levels of provision.

## NOTES

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2 Martin Wolf, 'Why is it so Hard to Keep the Financial Sector Caged', *Financial Times*, 6 February 2008.

3 Rudolf Hilferding, *Finance Capital: A Study in the Latest Phase of Capitalist Development,* London: Routledge and Kegan Paul, 1981 [1910].

4 See Costas Lapavitsas, 'Financialised Capitalism: Crisis and Financial Expropriation', *Historical Materialism*, 17(2), 2009 and Paulo Dos Santos, 'On the Content of Banking in Contemporary Capitalism', *Historical Materialism,* 17(2), 2009. For a critique see Ben Fine 'Locating Financialisation', *Historical Materialism*, 18(2), 2010.

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6 Robert Wade, 'From Global Imbalances to Global Reorganisations', *Cambridge Journal of Economics,* 33(4), 2009.

7 The comparison with Brazil is important, not least for social policy, as it is widely assumed that the income gap in Brazil has narrowed as a consequence of Lula's policy of providing social grants. Note also that while under-five mortality rates between the richest fifth and the poorest fifth were similar in both countries in the mid-to-late 1990s, namely 66 deaths per 1,000 live births, Brazil appears to be 'well on its way to reaching its Millennial Development Goal target of an average under-five mortality rate of 19 in 2015', but South Africa's target of 20 in 2015 'appears to be out of reach since its average under-five mortality rate has declined only marginally, i.e., from 64 in 1990 to 59 in 2007'. Hannah Bargawi and Terry McKinley, 'Targeting Inequalities in Child Mortality', *Development Viewpoint*, No. 40, Centre for Development Policy & Research, School of Oriental and African Studies, London, October, 2009.

8 The Presidency of the Republic of South Africa, *Development Indicators 2009*, p. 23, available from http://www.thepresidency.gov.za.

9 *The Weekender*, 24th/25th October 2009, p. 1. The UN report is based on data collected in 2007 and so does not reflect the impact of the crisis.

10 *Business Day,* 5 May 2010, p. 1

11 Henry Bernstein 'Globalisation, Neo-liberalism, Labour, with Reference to South Africa', in Alfredo Saad-Filho and Galip Yalman, eds., *Transitions to Neoliberalism in Middle-Income Countries: Policy Dilemmas, Economic Crises, Mass Resistance*, London: Routledge, 2010.

12 *The Weekender*, 24th/25th October 2009, p. 1. The UN also ranks Johannesburg to be the most unequal city in the world.

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14 *Business Day*, 5 May 2010, p. 1; Gordon Bell, 'Contracts Most Since 1984: GDP Fell Annualised 6.4 per cent', 26 May 2009, Reuters; *Mail and Guardian,* 27 February 2009; '2010/11 - 2012/13: Industrial Policy Action Plan', Department of Trade and Industry, South Africa, February, 2010, p. 13; *Business News*, 30 October 2009, p. 4; *Business Day*, 19 June 2009; *Business Report,* 18 June 2009; *Business Day,* 30 September 2009.

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16 Samantha Ashman, Ben Fine and Susan Newman, 'The Developmental State and Post-Liberation South Africa', in Neeta Misra-Dexter and Judith February, eds., *Testing Democracy: Which Way is South Africa Headed?*, Cape Town: IDASA Publishing, 2010.

17 Rob Davies, Dan O'Meara and Sipho Dlamini, *The Struggle for South Africa: A Reference Guide to Movements, Organizations and Institutions, Volume One*, Second Edition, London: Zed Books, 1988; Charles H. Feinstein, *An Economic History of South Africa: Conquest, Discrimination and Development*, Cambridge: Cambridge University Press, 2005; Fine and Rustomjee, *The Political Economy of South Africa*.

18 Central Statistical Service, *October Household Survey 1994*, Pretoria: Central

Statistical Service, 1995.

19 For a prescient summary of these processes see Bill Freund and Vishnu Padayachee, 'Post-Apartheid South Africa: The Key Patterns Emerge', *Economic and Political Weekly,* 33(20), 1998.

20 These links continue. In April 2010, just as Goldman Sachs was being accused of defrauding its investors, Tito Mboweni – former trainee at the bank who went on to be Governor of the Reserve Bank – was appointed 'global advisor' to the banking group. *Business Day,* 25 April 2010.

21 The murder of AWB leader Eugene Terreblanche in April 2010 only underlined the weakness of the organized white far right but revealed much about agrarian class relations and working and living conditions for farm workers, drastically hit by liberalization. One of those accused of the murder, a 28-year-old farm worker, alleges Terreblanche regularly defaulted on his R600 a month salary. (By way of comparison, a university lecturer would earn in the region of R20,000 per month.) The second accused, a 15-year-old farm labourer who had worked full time for Terreblanche since the age of 14, declined to apply for bail following his arrest as, according to his lawyer, in jail he is 'sleeping on a bed for the first time in his life. He is also having three meals a day for the first time. He is also studying.' *The Star,* 15 April 2010, p. 1.

22 Neo Chabane, Andrea Goldstein and Simon Roberts, 'The Changing Face and Strategies of Big Business in South Africa: More than a Decade of Political Democracy', *Industrial and Corporate Change,* 15(3), 2006; Freund and Padayachee, 'Post-Apartheid South Africa'; Hein Marais, *South Africa: Limits to Change.* London: Zed, 2001.

23 The financial sector in South Africa is dominated by the 'Big Four' commercial banks: ABSA, First National, Nedcor and Standard Bank. Between them, they provide 95 per cent of the country's retail accounts. The majority of poor black South Africans rely upon informal sector saving and credit associations, co-operatives, burial societies and village banks. See Ralph Hamman, Sanjeev Khagram and Shannon Rohan, 'South Africa's Charter Approach to Post-Apartheid Economic Transformation: Collaborative Governance or Hardball Bargaining', *Journal of Southern African Studies*, 34(1), 2008. The lack of serious detailed analysis of the financial system is compounded by the South African Central Bank, which has turned a blind eye towards the legal export of long-term capital that it has promoted and the illegal that it has induced.

24 Patrick Bond, 'World Economic Crisis: Implications for South Africa', Harold Wolpe Memorial Lecture, University of the Witwatersrand, Johannesburg, 7 May 2009.

25 *Mail and Guardian*, 28 July 2008; *Weekend Argus*, 20 April 2008.

26 William M. Gumede, *Thabo Mbeki and the Battle for the Soul of the ANC*, Second Edition, Cape Town: Zebra Press, 2007.

27 Stefano Ponte, Simon Roberts and Lance van Sittert, 'Black Economic Empowerment, Business and the State in South Africa', *Development and Change,* 38(5), 2007. See also Roger Southall, 'The ANC and Black Capitalism in South Africa', *Review of African Political Economy,* 31(100), 2004.

28 Bill Freund, 'South Africa: The End of Apartheid and the Emergence of the

"BEE Elite"', *Review of African Political Economy,* 34(114), 2007.

29 Ponte, Roberts and van Sittert, 'Black Economic Empowerment'.

30 Freund, 'South Africa'.

31 This acts as a continuing spur to radical nationalist/populist perspectives such as that of ANC Youth Leader Julius Malema, who has important links within government. Thabo Mbeki's brother Moeletsi, in a recent plea for a new African capitalism, also argues that the new black elite are 'a small class of unproductive but wealthy black crony capitalists… ironically, the caretaker of South Africa's deindustrialisation.' Moeletsi Mbeki, *Architects of Poverty: Why African Capitalism Needs Changing,* Johannesburg: Picador Africa, 2009, p. 61.

32 Ben Fine and Dave Hall, 'Terrains of Neoliberalism: Constraints and Opportunities for Alternative Models of Service Delivery', in David McDonald and Greg Ruiters, eds., *Alternatives to Privatization: Exploring Non-Commercial Service Delivery Options in the Global South*, London: Routledge, forthcoming, papers from Municipal Services Project, http://www.municipalservicesproject.org.