Article

Neo-liberalism, varieties of capitalism, and the shifting contours of South Africa's financial system

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Abstract
This article focuses on the role played by both national and global finance in comparative economic performance. It critically examines financial economics, arguing that both the Efficient Markets Hypothesis and the New Financial Economics, with its emphasis on market imperfections, information asymmetries and financial systems, fail fully to explain theoretically the specific role played by finance in the economy and the emergence of specific financial systems. It cannot provide, therefore, an adequate account of variety in capitalism. Neither, however, can the Varieties of Capitalism literature which rejects excessively homogenising visions of institutional convergence but which foregrounds institutional variety without providing an adequate theory of institutions or a deeper theory of capital and capitalism. The argument is demonstrated through an examination of the changing nature of South Africa's financial system from the apartheid to the post-apartheid periods and its insertion in both national and global economies. Financialisation, it is argued, incorporates a global dynamic into the economic and social formation of class interests and national economies which is seen clearly in the South African case. The argument therefore provides a critique of both mainstream financial economics and the Varieties of Capitalism literature and sheds light on the relationship between finance and the real economy and the nature of contemporary capitalism.

1. Introduction

What best explains variety within capitalism and what role is played by the financial system within this explanation, and in comparative economic performance? Indeed, what is the role of finance in the economy and how do we account for different financial systems and their significance? 'Financial

systems' are an important dimension of the 'New Financial Economics' that has developed as a critique of the Efficient Markets Hypothesis. But this approach, with its emphasis on market imperfections and information asymmetries, fails fully to explain theoretically both the specific role played by finance in the economy and the emergence of specific financial systems. It cannot provide, therefore, an appropriate account of variety in capitalism. Neither, however, can the Varieties of Capitalism literature do so, even if rejecting excessively homogenising visions of institutional convergence. For it foregrounds institutional variety without providing an adequate theory of institutions or a deeper theory of capital and capital*ism*. Significantly, this approach acknowledges the importance of finance, and yet finance is not one of the five defining components of Hall and Soskice's binary and static typology of Western capitalism into liberal and co-ordinated market economies (2001). From a deeper perspective, capital accumulation has contradictory dynamics and conflicts, as well as institutional compromises, and so analysis must address the changing formation and balance of class interests and conflicts, and do so recognising the importance of global forces and dynamics, as opposed to the methodological nationalism of the Varieties of Capitalism approach (Peck and Theodore 2007, Streeck 2010).

In this chapter we propose an alternative view both to New Financial Economics and to the Varieties of Capitalism (VoC) approach. We argue that it is necessary to look at the relationship between specific configurations of productive and money capital, and different state policies towards banking and finance, and how they change over time. Money capital has a clear and essential role in Marx's analysis of the total circuit of industrial capital but the articulation between the different forms of capital is historically constructed and contingent (Marx 1978, Orhangazi 2011). We argue that global factors should be viewed as causally mediated at the national level, and that global factors themselves need to be understood within a broader periodisation of capitalist development. Neo-liberalism and, with it, financialisation may have more or less unified policy recommendations but these have induced diverse outcomes in different contexts. Finance alone does not, and cannot, account for national diversity but needs to be integrated into an understanding of specific systems of accumulation. But with the financialisation of the global economy, finance has become an increasingly important determinant, exacerbating combined and uneven development both within South Africa and across the global economy and

incorporating a global dynamic in the economic and social restructuring of national economies contingent upon the formation, representation and evolution of class interests.

The argument is illustrated through a discussion of South Africa's financial system, but it is worth noting that there is little application of the VoC approach to South Africa, in line with the general neglect of developing economies within this approach (one exception being Nattrass and Seekings 2010). The South African financial sector is by African standards large and well-developed as a consequence of the historical role played by British imperial capital and then Afrikaner finance capital which produced a unique corporate structure whereby a small group of conglomerates, or 'axes of capital' (Fine and Rustomjee 1996), came to own and control both the major corporations and finance houses. These strengths were compounded by sanctions against the apartheid regime which saw considerable withdrawal of international capital and the 'trapping' of large amounts of domestic capital – though accompanied by illegal capital flight. Liberalisation since the early 1980s, in line with World Bank policy recommendations (for the World Bank on the role of foreign banks, see Dos Santos 2011) but pursued from within by domestic class actors (eg Carmody 2002), has, particularly with the adoption of GEAR in 1996, allowed for considerable liberalisation of the financial sector in a process similar to the repeal of the USA's Glass-Steagall Act. The consequences, in conjunction with the financialisation and internationalisation of capital, have been dramatic. The classic period of the Minerals-Energy Complex (MEC), has been followed by the emergence of a 'Financialised MEC'.

The article is structured in the following way. In section two we make some general observations about the Varieties of Capitalism approach. In section three we look at Financial Economics and the shift from the Efficient Market Hypothesis to the Inefficient Market Hypothesis (IEMH, as we dub the core of the New Financial Economics). In section four we look at financialisation as a dynamic and contradictory process of change across many levels. In sections five and six the merits of our alternative are demonstrated by reference to the shifting contours of the South African financial system and its insertion within both national and global economies. In section seven we draw some conclusions.

2. Varieties of capitalism

It is important to recognise that the VoC approach has its origins in the post-war boom even if it only emerged and shot to prominence in the early

noughties, something which itself warrants explanation. That these origins might be overlooked is a consequence of the very different material and intellectual environment that accompanied the post-war boom, as opposed to the first decade of the new millennium. For, during the post-war boom, much attention was focused on the differing growth performances of (already developed) national economies, with Germany and Japan to the fore, and the USA and, especially, the UK as laggards. Significantly, the prospect of global recession did not enter the picture until the eruption of the stagflation of the 1970s. Moreover, as is already apparent, the post-war boom induced a focus upon comparative economic performance at the *national* level, as if the global were secure, and could be addressed in terms of differences in national policies and modes of policymaking and corresponding institutions. Reference to the global was far off although some attention could be paid to the role of multinational corporations as potentially eroding, even challenging the capacity for independent national policymaking.

Intellectually, the post-war boom was marked by a tri-partheid (not just macro and micro) division of economics into (Keynesian) macroeconomics, microeconomics with the conditions for Pareto-efficient partial or general equilibrium as point of departure for benevolent state intervention, and a diverse range of applied fields covering the public sector, industrial and other policy, and institutional design and performance around industrial relations, corporate structure, etc. Not surprisingly, differences in comparative performance could, in part, be associated with differences in national financial systems, with contrasts drawn between Japan and Germany as bank-based, and the USA and the UK as market-based, see below. For the latter, in particular, there had been a longstanding debate over whether the 'City' had been responsible for the UK's relative (industrial) decline.[1]

The collapse of the post-war boom shattered this somewhat complacent configuration of material and intellectual reference points. Remarkably, especially in retrospect, it was not so much the demise of Keynesianism that is surprising as the extreme form of monetarism that was soon to replace it, with a corresponding redrawing of the content and emphases of mainstream economics as a whole (that also, paradoxically given the crisis of capitalism, witnessed the marginalisation of the heterodox alternatives and radical political economy that had prospered to some degree in the 1960s). The New Classical Economics (NCE), not only turned the tables of hegemony within the discipline by subordinating macroeconomics to microeconomics, it also

did so under the umbrella of the most extreme assumptions and conclusions – reliance upon representative agents, rational expectations, perfectly working markets, the existence of unique, stable, efficient equilibrium, and the ineffectiveness of state intervention other than to distort micro-markets. Both business cycles and short-term fluctuations were taken to be the consequence of random shocks. And, with the increasing prominence within the discipline of microeconomics and homo economicus, applied economics with its strong inductive content became displaced by deductive methods and mathematical modelling.

The 1970s also witnessed the growing hegemony of neo-liberalism, its counterpart in globalisation and, even more recognisable now in the wake of the global crisis of the noughties, the meteoric rise of finance at both national and global levels. More immediately, though, in the 1980s, the reaction against the NCE in the world of economic scholarship took the role of market imperfections as its critical point of departure. Rather than challenge the microeconomic apparatus upon which the NCE had been constructed (and even restore the macro and inductive, as opposed to the micro modes of reason, attached to the Keynesian period), the new market imperfection, especially asymmetric information, economics accepted optimising individuals as deductive starting point, but located them as subject to imperfect information, transaction costs, etc, and not necessarily efficient equilibrium.[2] In short, the price of restoring the propositions that markets might work imperfectly and that there might be a corresponding role for the state to correct them was to accept the shift consolidated if not pioneered by the NCE of subordinating macroeconomics and applied economics to microeconomics.

This also had a number of further consequences. The first, as with 'economics imperialism', was to extend even further the scope of application of economics and to make it more palatable, as it were, to its victims. For, unlike earlier extensions of microeconomics to the non-economic in which the latter was treated as if in the presence of perfectly working markets, market imperfection economics treated the non-economic as if it were the possibly path-dependent response to market imperfections. As a result, a whole new set of fields were established or renewed, from the new institutional economics through the New Financial Economics, see below, to the new development economics (not least with Stiglitz's launch of the post-Washington Consensus). Second, the policy consequences of the new micro-foundations was to suggest that there is scope for state intervention

to improve economic performance, subject to correcting market and institutional imperfections on a piecemeal basis, presuming it can be demonstrated that outcomes will be superior to leaving things to the market (given scope for rent-seeking, corruption, and the generally but not universally favourable role played by the market through competition). Third, and often overlooked, the new approach otherwise lacked any systemic vision precisely because of its micro-foundations – in contrast to Keynesianism (get aggregate demand right) and monetarism (leave things to the market). It was, in effect, incapable of explaining comparative economic performance other than as a sack of more or less indefinite differences in market and institutional imperfections.

And it is precisely this vacuum within the market imperfection economics that, consciously or not, the VoC approach opportunistically found itself capable of filling.[3] It did so through an eclectic and selective amalgam of the older, inductive traditions from the Keynesian period and the newly established market imperfection microeconomics. This explains VoC's chronology in terms of the prior need for availability of microfoundations but the latter's deficiencies for addressing comparative performance for which analytical inputs derived from elsewhere. It also explains its primary preoccupation with 'economies at relatively high levels of development because we know them best and think the framework applies well to many problems there' (Hall and Soskice 2001: 2).[4]

From this perspective, it would be possible, but mistaken, to read VoC for its exclusive reliance upon microfoundations and market imperfection economics as it seeks 'to connect the new microeconomics to important issues in macroeconomics' (Hall and Soskice 2001: 5). And it does, after all, focus on the firm (but a small step from the optimising entrepreneur), draws upon game theory as technique (fundamentally individualistic in matching strategies to outcomes) and, within a single page of the founding introduction, it is possible to find referenced all of the corresponding conceptual jargon – transaction costs, principal-agent, adverse selection, shirking, hierarchy, incomplete contracts, capabilities, and coordination, whilst posing this as 'relational' (Hall and Soskice 2001: 6). But such microfoundations are complemented by their marriage with an ad hoc mix of more or less arbitrary elements drawn from political science, sociology and the social theory in general attached to what is deemed to be comparative political economy.

Consequently, 'five spheres' are taken as the building blocs of capitalism's national varieties – industrial relations, vocational training, and educational,

corporate governance, inter-firm relations, and intra firm-employee relations. Finance is notably absent from this list and, yet, it immediately serves as a reference point for differences in national economies. Thus:

> British firms must sustain their profitability because the structure of financial markets in a liberal market economy links the firm's access to capital and ability to takeover to its current profitability; and they can sustain the loss of market share because fluid labor markets allow them allow them to lay off workers readily.[5] (Hall and Soskice 2001: 16)

This mixed presence of finance is indicative of, and conducive to, further tensions within the approach. One is around the ideal types of liberal and coordinated market economies (LMEs and CMEs) given that so many different (five or more?) spheres can be variously configured in relation to one another. In addition, the role of the global is in part taken as external shock that might disturb national economies from their equilibrium (although the approach is also deemed to be dynamic, necessarily in a limited sense) but, especially in the domain of finance, the global is seen as potentially determining even though the whole thrust of the approach is to emphasise the role of national institutions as a source of diversity of outcomes in response to globalisation. Indeed, it is suggested that, 'Financial deregulation could be the string that unravels coordinated market economies' (Hall and Soskice 2001: 64).

The incidence of finance within the VoC approach, then, is peculiar. Acknowledged as possibly dynamic and globally determining, it fails to appear within the 'five spheres' of institutionalised national economies, yet figuring most prominently as such in comparisons of national economies as case studies. In part, these ad hoc formulations might be explained as a matter of intellectual and material chronology. For, of course, the VoC approach did not have the benefit of hindsight of the global crisis of the noughties which might have catapulted finance more securely into its five or more spheres.

But the VoC approach did have the benefit of the New Financial Economics which, based on market imperfection economics, had not only been established in the 1980s but, as will be seen in the next section, had already been found to be somewhat inadequate to the past, continuing and increasing complexities and roles of both national and global finance. For, as the string of finance unravels into the noughties, its role in comparative economic performance could hardly be reduced to the relations between banks and industry in funding investment, as had been simplistically presumed by the New Financial Economics. As a consequence, the VoC approach could hardly

credibly call upon market imperfection financial economics, not least because, whilst finance had long since moved beyond the industry/bank relationship, the New Financial Economics had remained stuck and unchanging. Significantly, for example, two or more decades later, Stiglitz continues repeatedly to refer back to his classic joint article with Weiss and the like to explain the potential dysfunction of financial systems (Stiglitz and Weiss 1981), as if finance itself, let alone theory, had failed to move on.

So, in the next section, it is shown why the New Financial Economics was inadequate for purpose, both in terms of its own object of enquiry – the role of finance in the economy – and for the VoC approach. Perhaps this explains why finance occupies such an ambiguous position within the approach and, as will be suggested in section four by reference to 'financialisation', attempts to fix it remain inadequate. For, unlike the VoC approach, financialisation appropriately locates finance as an evolving (and contradictory) process rather than as an institutional compromise, or evolving equilibrium.

3. From EMH to IEMH

Following the collapse of the post-war boom, financial economics in the early 1970s within the mainstream increasingly became dominated by the efficient market hypothesis (EMH). As Larry Summers has so eloquently put it as co-author (Summers and Summers 1989: 166):

> The ultimate social functions are spreading risks, guiding investment of scarce capital, and processing and dissemination the information possessed by diverse traders … *prices always reflect fundamental values* … The logic of efficient markets is compelling.

For the early proponents of the EMH, the composition of financial assets in underpinning real investment was essentially irrelevant (the Modigliani-Miller hypothesis) but, in more refined form, the EMH reflected the following five sequential propositions: all available information is incorporated into the pricing of assets; surplus profits can only be temporary within financial markets; asset prices adjust rapidly as more information becomes available; asset prices reflect the value of corresponding real assets; and the real economy is served by efficient financial markets in terms of the volume and composition of investment. Policy-wise, finance should be deregulated to allow for financial deepening and the creation and use of a fuller range of financial assets in line with saver and investor needs.

These propositions are open to dispute on their own terms (Guerrien and

Gun 2011). However, within these terms, the EMH gave rise to what might be dubbed, as its alter ego, the Inefficient Market Hypothesis (IEMH). Drawing upon the broader notion of market imperfections as a consequence of informational asymmetries, the new financial economics began to emphasise not only how financial markets might be inefficient but also give rise to institutions (and regulation) in response to those inefficiencies.[6]

As a result, the approach examines financial *systems*, recognising a structural separation between those that lend and those that borrow money, and the potential for non-market relations between them. This separation can itself be explained by the productivity of specialisation – in various aspects of finance as opposed to productive entrepreneurship – but the distinguishing analytical content of this approach in the most recent literature is in the informational asymmetries and uncertainties that surround financing. First, if I am to lend money, how am I to know who is a good and who is a bad risk? Second, how am I to be sure that the loan is being used for the purpose for which it has been made? Third, how am I to guarantee that the borrower, who is in a better position to know, is accurately reporting firm performance and prospects. Nor are all the problems on the side of the lender. For, fourth, a borrower needs to know that a lender will tide a firm over an unforeseeable and unfortunate time of difficulty rather than, for example, forcing bankruptcy and collecting on any arrangement for default collateral. Fifth, what is to happen in the event of an unpredicted or unpredictable outcome, one not covered explicitly by contract? Who is to bear the unforeseen losses or gains and how?

Despite its apparent novelty, the financial systems approach lay within the mainstream, even if vanguard, of orthodox neo-classical economics. It yielded as such, at least in principle, a range of remarkable results, not least the eclipse of the financial liberalisation approach which is merely a special case of a financial system in the absence of contractual costs and of informational asymmetries and uncertainties. The alternative of the EMH is deemed fatally deficient in two telling respects. First, it is incapable *theoretically* of addressing the specific role played by finance since it treats it as one market amongst many. For Stiglitz, in commenting on the traditional, financial liberalisation approach (1985: 134):

> Banks are like suppliers of pencils or toilet paper; each supplies a necessary ingredient in the production process of the firm, and there is no more reason to ascribe control to banks than to suppliers of other inputs.[7]

Second, not surprisingly, the financial liberalisation approach has a limited ability to explain the emergence of different financial systems, how they function empirically, and how they might be improved other than by deregulation. It even denies these are of significance.

More constructively, by contrast, the IEMH is able to show, first, that a deregulated financial system, leading to financial deepening, can be inefficient since the degree of certainty and efficacy of contracting can be enhanced by imposing financial regulations. Second, it points to the importance within the financial and industrial system of the methods of monitoring investment prior to, during and after the application of funds; further, traditional monitoring devices such as stockholder meetings, threat of takeover, and dependence on external finance have weaknesses as well as strengths. Stockholders find it difficult to organise collectively, and meetings can be stage-managed by better-informed management. Apart from the costs that can be imposed by an incumbent management, those contemplating takeovers need to distinguish between poor performance and poor circumstances in evaluating a firm – and doing so may incur investigative costs from which others benefit in following a share-purchase lead (free-riding). And reliance upon external finance as a disciplining device is limited to the extent that managers can deploy retained profits (Stiglitz 1985). Third, deregulated financial systems can lead to short-termism at the expense of long-term commitment on the part of finance to the goals of growth and productivity increase. For (Stiglitz 1985: 147):

> Keynes, in the *General Theory*, expressed a concern that investors in the stock market were merely concerned with short-term gains, not the long-term returns. Today, increasingly, similar allegations are brought against the managers of many of America's largest enterprises: the heads of these enterprises are financial experts, not production experts. Their job is to allocate capital. And their perspective is not unlike that of the Keynesian investor: they wish to find under-priced assets, just before those assets are discovered by others, so that they can reap a short-term capital gain. Their behavior is not surprising: what incentive do they have to be concerned about the long-term prospects of the firm or the productivity of the economy?

Fourth, unregulated financial systems can lead to inefficiently high rates of interest, discouraging productive investment and, paradoxically, reduce the rate of return to lenders as only ever more risky borrowers are prepared to borrow. This can also lead to a knock-on effect in which there is an increased

demand by savers for existing financial assets, thereby artificially inflating their prices.

Fifth, a resolution of all of these problems is, in part, deemed to be possible through the closer collaboration between contracting parties, rather than reliance upon the anonymity of deregulated market forces, so that reputation can be built into and support long-term financial arrangements. Consequently, how banks relate institutionally to industry is of crucial importance.

On the basis of these propositions, the financial systems approach has generally been inclined towards favouring what has been termed bank-based financial systems – those most notably, if not exclusively, associated with Japan and Germany.[8] For these countries' banks, often with a 'main bank' in the lead, are presumed to have an intimate interaction with the firms to which they lend, monitoring performance intensively, providing long-term finance and, most important, securing long-term plans for restructuring in times of 'distress', reflecting a systemic reputational effect, or implicit contract, on both sides. The bank is prepared to take a huge risk with a poorly-performing company which, in turn, during better times, does not take advantage of the possibility of turning to other banks or sources of finance and imposing competition for its banking business. The systemic outcome can be one of lower interest rates and higher levels of long-term industrial investment. This is in contrast with the so-called market based system which is supposed to be typical of the USA and, especially, of the UK, for which a greater proportion of funds is obtained through internally generated finance (retained earnings) and anonymous external funds, more likely on a short-term basis even if competitively determined.

Given the strengths of these results, and the apparently sounder correspondence to empirical evidence in the functioning and structure of financial markets than is allowed for by the financial liberalisation school, it would be natural to expect the drawing of immediate policy conclusions – to move towards, and to expect movement towards, a bank-based financial system. Such a conclusion is, however, both premature and insufficiently nuanced for the following reasons.

First, however, the theory is investigated empirically, it is entirely based on deductive principles around market imperfections without prior reference to the modern nature of finance itself. Indeed, banking is construed in terms of a set of archetypical assets (short- and long-term, for example, or overdrafts as opposed to equity) and regulations concerning the extent of

liberalisation of the financial system and the degree of state intervention through monetary policy. Correspondingly, the market, as opposed to the bank-based system, is readily and correspondingly associated with the predominance of different types of assets and regulations. In practice, however, the distinction between the two forms of banking is nowhere near so sharp, nor does it readily translate unambiguously into different types of assets and regulations.[9]

Second, by the same token, the theory is based upon a variety of functions, undertaken in sequence over the lifetime of investment projects. Purely in the relations between finance and industry, this involves screening proposals, constructing contracts with terms and conditions, monitoring outcomes, and dealing with them when they fall outside contractual stipulations. Once again, such functions do not necessarily correspond consistently with one another along the single dimension of a continuum between market- and bank-based financial systems. A short-term loan, for example, in the form of an overdraft, may be readily rolled over by a bank with a longstanding industrial customer. This has been typical of Japanese but not of UK banks, rendering it difficult to distinguish the two banking systems empirically if purely examining the stock and form of bank credits to industrial enterprises.

Third, the character of a financial system is not purely dependent upon the terms of its structural separation from industry and how they interact with one another. Nor are the intrinsic structures and functions of these two components invariant since there are different types and dynamics of industry as well as of finance. Moreover, each and their interaction are dependent upon broader socioeconomic factors, something acknowledged by the VoC approach in its insistence upon the importance of how different institutions interact with one another. Indeed, the VoC approach suggests how, relative to the CME, the LME can be conducive to more adventurous initiatives in pursuit of technological change in view of ease of availability of short-run finance and detachment from coordinated institutions subject to inertia. Thus, 'the institutional frameworks of liberal market economies provide companies with better capacities for radical innovation, while those of coordinated market economies provide superior capacities for incremental innovation' (Hall and Soskice 2001: 41).

There are, then, limitations on the use of IEMH for the VoC approach, especially as the former has failed to move on even in the wake of the global financial crisis. There are two obstacles in its way. First, and paradoxically,

despite the alleged superiority of the bank-based over the market-based system, drawing on departure from EMH, asymmetric information between contracting parties, and the supposedly superior performance historically of bank-based systems, financial and national developments have gone in precisely the opposite direction. The financial string has, indeed, unraveled! Second, the IEMH has no way of explaining this. Again, we can illustrate this by reference to Stiglitz who increasingly draws upon the vested interests and ideology of finance to explain what has occurred, and why his own commonsense and more sophisticated theory has not prevailed. But this ought better to serve as a (partial) starting point rather than as a conclusion. And, of course, it is totally incompatible with an approach based on asymmetrically informed, if optimising, individuals.

4. From IEMH to financialisation

It is, then, a virtue of the VoC approach that it locates finance not only in terms of intrinsic microfoundations but also in relation to its extrinsic interaction with other institutional forms and effects. But this does not mean that the VoC approach gets these right in content as well as emphasis. In some respects, this is difficult to assess in principle since the approach is so open across the institutional forms it can incorporate, its reliance upon both these and microfoundations, and its greater or lesser appeal to equilibria and dynamics, path dependence and inertia, globalisation and national specificity, and cooperation and coordination but also culture, power and (class) conflict. As a consequence, it is conceivable that any critical analysis could be reconstrued as lying within the VoC approach.

This may or may not be so of the use of the term 'financialisation' to characterise the nature of contemporary capitalism over the past 30 years of neo-liberalism and which, coincidentally, emerged at much the same time as the VoC approach in the early noughties (Goldstein 2009, but see also Arrighi 1994). In brief, financialisation has involved: the phenomenal expansion of financial assets relative to real activity (by three times over the last 30 years); the proliferation of types of assets, from derivatives through to futures markets with a corresponding explosion of acronyms; the absolute and relative expansion of speculative as opposed to or at the expense of real investment; a shift in the balance of productive to financial imperatives within the private sector whether financial or not; increasing inequality in income arising out of the weight of financial rewards; consumer-led booms based on credit; the penetration of finance into ever more areas of economic

and social life such as pensions, education, health, and provision of economic and social infrastructure; the emergence of a neo-liberal culture of reliance upon markets and private capital and corresponding anti-statism despite the extent to which the rewards to private finance have in part derived from state finance itself. Financialisation is also associated with the continued role of the US dollar as world money despite, at least in the global crisis of the noughties, its deficits in trade, capital account, the fiscus, consumer spending, and minimal rates of interest.

And, however financialisation is defined, its consequences have been perceived to be: reductions in overall levels and efficacy of real investment as financial instruments and activities expand at its expense even if excessive investment does take place in particular sectors at particular times (as with the dotcom bubble of a decade ago); prioritising shareholder value, or financial worth, over other economic and social values; pushing of policies towards conservatism and commercialisation in all respects; extending influence of finance more broadly, both directly and indirectly, over economic *and* social policy; placing more aspects of economic and social life at the risk of volatility from financial instability and, conversely, places the economy and social life at risk of crisis from triggers within particular markets (as with the food and energy crises that preceded the financial crisis). Whilst, then, financialisation is a single word, it is attached to a wide variety of different forms and effects of finance with the USA and the UK to the fore. And, even if exposed in acute form by the crisis, its expansion over the last few decades has been at the expense of the real economy despite otherwise extraordinarily favourable 'fundamentals' for capitalism in terms of availability of new technologies, expansion and weakening of global and national labour forces, and the triumph of neo-liberalism in political and policy arenas.

Now, as is apparent, the notion of financialisation has been used in many different ways and some, no doubt, are more compatible with the VoC approach than others. Where financialisation sits least comfortably within the VoC approach is where it is perceived as incorporating a global dynamic in the economic and social restructuring of national economies contingent upon the formation, representation and evolution of class interests. This is precisely of significance for the passage from apartheid to post-apartheid economy.

5. From apartheid to post-apartheid economy and financial system

The economic and political history of any country both shapes, and is

shaped by, the financial system. The elements which make up a financial system are not only complex, as discussed above, they are historically and socioeconomically specific and they change over time. South Africa has a well-developed and sophisticated financial sector, particularly in comparative African terms, as a consequence of the particular pattern of its imperial past. Whilst rejecting South African exceptionalism as such, it can be argued that the peculiar form of the concentration of power in the financial and corporate sector make it historically unique and not a clear example either of an LME or a CME, a distinction which is highly problematic to begin with (Aybar and Lapavitsas 2001).

A number of dimensions of the South African financial system are of particular importance historically both prior to and during the apartheid era. First, as has been emphasised by conventional descriptive histories (Amphlett 1914; Jones 1994, 1996, 2009), is the domination of the banking sector by London-based imperial banks. But, and rather less analysed, is the relative lack of importance of these banks in providing funds for accumulation. The Standard Bank of British South Africa, established in 1862, and Barclays Bank Dominion Colonial and Overseas (BBDCO), formed through a merger in 1926, both had headquarters in Britain, expanded into colonial markets in South Africa, survived various economic crises, and absorbed over time numerous small banks which had largely served agricultural needs. They expanded gradually outwards from their original base in the Cape Colony, particularly following the discovery of gold in the Transvaal. By 1910, the two main imperial banks held over 90 per cent of the total capital of banks in South Africa (Verhoef 2009a). The imperial banks benefited greatly from the minerals revolution, both as service providers to the mining sector, first in Kimberley and then in Johannesburg, but these banks were far from being central to the funding of industry. Deep-level mining needed considerable capital. The rapid concentration in the mining sector gave rise to an oligopolistic industry structure. By the early 1930s mining was controlled by six mining houses which, in turn, controlled all the major mining groups, with minerals giant Anglo-American to the fore (and which had interests in both Standard and Barclays). This pattern is hardly surprising, but each of the mining houses established its own finance house to raise capital from overseas, and it was precisely this control over the financial sector which helped establish the dominance of the mining conglomerates. Productive and financial capital were intertwined (Innes 1984).

Second, this pattern was to inspire Afrikaner capital which until the

Second World War was heavily represented in agricultural production but had little representation in mining or secondary industry, such as it was (Giliomee 2003, O'Meara 1983). The phenomenon of 'poor whites' would increasingly exercise the minds of the Afrikaans-speaking elite. The 'scorched-earth' policy of the British during the war of 1899-1902 had devastated agriculture and increased the urbanisation of poor and unskilled whites. Santam (the South African Trust and Insurance Company) was formed in 1918 to establish a South African insurance company based on Afrikaans speakers and Santam established Sanlam (the South African National Life Assurance Company) as its life assurance subsidiary in 1918 with an overlapping board of directors. These had three strategic goals: to contribute to the growth of the South African economy; to encourage Afrikaners to develop a propensity to save; and to strengthen Afrikaner (and all South African policy holders') participation in the South African economy in contrast with foreign-owned insurance companies which expatriated profits (Verhoef 2009b: 124-5). Sanlam was to be central to the development of Afrikaner nationalism and Afrikaner capital and within 20 years it was the fourth biggest insurance company in South Africa. Similarly, what would become Volkskas Bank was established by the Afrikaner Broederbond in 1934 as a people's savings bank, but it was some time before it was able to compete with the imperial banks and Nedbank, the third commercial bank (originally Dutch) considerably smaller than Standard and Barclays (Verhoef 1992a and 1992b).

At the Economic People's Congress in Bloemfontein in 1939, organised by a broad spectrum of Afrikaner institutions to address the poor-white question, Tienie Louw of Sanlam proposed the establishment of an investment company to provide capital for Afrikaner business, modelled on the finance houses of the mining conglomerates. He did so on the grounds that, 'If we want to be successful, we need to use the capitalist system in a similar fashion as displayed by the gold mining industry.' (Verhoef 2009b: 128). The FVB (Federale Volksbeleggings or Federal People's Investments) was established with Sanlam having a controlling shareholding and overlapping members of the board of directors. Through FVB, Sanlam was critical in channelling Afrikaner savings and agricultural surplus into the development of an 'Afrikaner' industrial base (O'Meara 1983).

The heavy promotion of Afrikaner finance capital in the 1940s and 1950s, with the aid of the state, allowed Afrikaner capital to break into areas once the domain of English-speaking capital. Minerals and energy then became

the vehicles through which Afrikaner capital integrated into the industrial core of the economy. The state, particularly under the National Party from 1948 onwards, promoted the development of Afrikaner capital, through a shifting mixture of compromise and conflict with English capital but critically with these relations underpinned by the creation of state-owned sectors in electricity (Eskom) and steel (Iscor), but also chemicals and fuels which complemented mining conglomerate needs and provided a growing link between the state and the private sector (Clark 1994, Fine and Rustomjee 1996). The Industrial Development Corporation (IDC), established in 1940, had by 1956 invested £40.7million in Sasol (the state-owned coal-to-oil conversion facility), 77 per cent of its investments in industry overall (Fine and Rustomjee 1996: 159). The state established The National Finance Corporation (NFC) in 1949 and, in doing so, did much to create a local long-term capital market. The NFC invested its deposits in Treasury Bills and in mining house debentures and was particularly important in financing the huge development of the Orange Free State goldfields around Welkom in the immediate post-war period (Fine and Rustomjee 1996:154-5, O'Meara 1983:148-9). Indeed, the NFC channelled funds from Anglo American's diamond operations to its mining interests in the Orange Free State and so represented a shift from private sources of finance to institutional ones and in addition helped erode differences between English and Afrikaner capital.

FVB secured Afrikaner capital's entry into the almost wholly English-owned mining industry initially through guaranteeing Volkskas bank loans but then through Bonuskor (created by Sanlam in 1946). Bonuskor took the bonuses of policy holders and invested them in shares in listed companies on the Johannesburg Stock Exchange. Bonuskor and FVB established their own mine holding company, Federale Mynbou Beperk, or FM (Federal Mining Limited), in 1953. FM broke into coal (in part in co-operation with Anglo-Vaal), gold and asbestos and became increasingly interested in diamonds, eventually co-operating with Anglo-American, through Genmin, though AAC wanted to ensure FM's operation in diamonds came under the De Beers Central Selling Organisation.[10] FM eventually controlled Genmin and, in 1974, Genmin took over the Union Corporation Company, a British-owned gold mining company, creating Afrikaner control of the second largest gold mining house, renamed Gencor in 1975 (Jones 1995, O'Meara 1983).

FVB also developed into an industrial holding company and by the late 1980s had assets of R259 million (Verhoef 2009b: 133). By the 1970s, FVB

managed nearly 30 industrial enterprises, Federal Industries, Federal Chemical Investments, Federal Telectra, Fedfood, Fedservices. O'Meara (1996:139, Table 3) estimates that in 1954/5, Afrikaner ownership of mining was 1 per cent which increased to 10% by 1963/4 and 18% by 1975. Over the same period for manufacturing and construction the share rose from 6% to 10% to 15%, while in finance it rose from 10% to 21% to 25%. The capital market remained small relative to European standards, and foreign capital and internal financing by mining houses remained important. Nevertheless, personal and corporate savings increased by 1,654% between 1948 and 1958 (from £13m to £215m); the surplus of public authorities increased by 125 per cent (from £28m to £63m); and in 1958 share capital and deposits of permanent building societies were £512million (Innes 1984: 148).

Anglo formed its own merchant bank in 1955, Union Acceptances Limited, supported by Barclays Bank and was, by 1968, the largest merchant bank in the country (with assets worth R142m). It was also the seventh largest bank in the country (Innes 1984: 206). Other merchant banks followed UAL: the Central Finance and Acceptance Corp backed by SANLAM; the Accepting Bank for Industry funded by the IDC; the Philip Hill Acceptance Co, a subsidiary of a London firm. By the 1960s the growth and development of Afrikaner finance capital had begun to erode the dominance of the British imperial banks, Standard and Barclays. The National Finance Corporation, private merchant banks, Volkskas, Trustbank – established by Sanlam and FVB in 1955 (Verhoef 1992a) – plus building societies and life insurers emerged. In particular, Volkskas benefited greatly when the National Party after 1948 transferred to it the accounts of state corporations and government municipalities.

The very rapid growth of merchant banking from the late 1950s onwards, under conglomerate control, reinforced the close connection between finance and industry. A major series of mergers, including financial ones, increased concentration in the economy. Most important of the financial mergers were those led by Anglo's Union Acceptance Limited, which merged with Syfrets Trust Company owned by the South African Mutual Life Association Society insurance firm (later to become Old Mutual), and which was backer of Anglo's Rand Mines which merged with manufacturing conglomerate Tomas Barlow to form Barlow Rand in 1971. The combined group then merged with the originally Dutch-owned Nedbank Group (then the third largest commercial bank) to form in 1974 Nedsual (Nedbank and Syfrets-UAL Holdings). Three groups, Standard, Barclays and Nedsual thus dominated

banking with Volksas in fourth place while both Anglo and Old Mutual had expanded significantly into finance, especially given that Anglo retained a minority stake in both Barclays and Standard. Anglo then took over the Schlesinger financial group so gaining controlling stakes in Eagle Life Assurance and Western Bank (seventh largest) and Sorec Ltd (second largest property company) (Innes 1984). All the major finance groups had significant industrial and property holdings with the exception of Standard/ Liberty Life which remained purely financial.

The concentrated control of the financial sector has contributed to concentration and centralisation of capital and also shaped industrialisation around the MEC core.[11] Hence, understanding of finance needs to be integrated into a broader understanding of the dynamics of accumulation in a particular place and time. South Africa's system of accumulation (the MEC), produced and was produced by a powerful and concentrated financial system with uniquely close ties/overlapping ownership structures with productive capital and strong state support. These origins (of which an international dimension is constitutive) shaped the financial sector until deregulation, internationalisation and financialisation provoked further, if changing, patterns of integration and accumulation. Paradoxically, conglomerate control of the financial sector did not prevent but led to increasing speculative investment and to high levels of illegal capital flight.

In the climate of growing isolation and international sanctions (following the Sharpeville massacre), the Franszen Commission of the early 1970s led to eight amendments to the Bank Act. It regarded the banking sector as strategic economically and was concerned that foreign-controlled banks held 73 per cent of total commercial bank deposits and recommended that foreign control be reduced to below 50 per cent and new entries by foreign banks were effectively prohibited (Itzikowitz 1992, Singleton and Verhoef 2010, Innes 1984). Anglo increased its share in Barclays, thus allowing the bank to deflect criticism whilst, 'At the same time the strong links which Anglo had with Nedsual and Standard laid the basis for an extremely powerful alliance to be formed between Anglo, Barclays, Standard, Nedsual (with its attendant Dutch connections) and the Old Mutual' (Innes 1984: 217). In the wake of the debt crisis of 1985, when international banks led by Chase Manhattan refused to elease $10 billion to South Africa, and given the economic and political climate, foreign banks withdrew from South Africa. Barclays Bank sold its stake in 1986 and Barclays National was renamed as the more patriotic sounding First National Bank, later absorbed into the

FirstRand Group. Standard Chartered sold its share in the Standard Bank of South Africa, again to South African interests. This upheaval meant that for a short period, the banking sector was almost entirely domestically owned (Singleton and Verhoef 2010).

But it is not simply a matter of intra-financial relations. Accumulation within South Africa had witnessed a passage from an uneasy compromise between Afrikaner and English capital to their integration, with a corresponding subordination of small-scale to large-scale Afrikaner capital. Equally, just as English capital spread its ownership and control over most sectors, including finance, so the major mechanism through which Afrikaner capital grew, concentrated and integrated was by means of finance (with extensive support from the state). But, as will be seen in the next section, from its role of catalyst in forming and resolving intra-class capitalist conflicts, finance has increasingly taken on significance on its own account.

6. The 1980s onwards: de-regulation, internationalisation and renewed concentration

Growing demand to isolate the apartheid regime led to an increase in sanctions and the withdrawal of foreign capital in the 1970s and 1980s. From the 1970s onwards, sanctions and relative isolation tended to increase domestic concentration. It was the De Kock Commission, appointed in 1977 and reporting in 1985, which facilitated a massive transformation of the South African financial system with its advocacy of the liberalisation of the financial sector, in line with international trends. As seen above, financialisation as a structural change has affected many developed economies since the 1980s and is associated with the liberalisation of interest rates, exchange rates, credit ceilings, the privatisation of state-owned banks, and removal of barriers to entry. Financialisation is also associated with large financial and capital markets, increases in financial transactions, in real interest rates and higher returns to the financial sector, and a larger share of income accruing to the sector and holders of financial assets.

De Kock’s framework was the financial liberalisation approach and, as such, demonstrated scant attention to the functioning of the financial system as a whole, and argued for monetary policy to be conducted by the market mechanism as far as possible; for specialised bank categories to be abolished in order to ‘stimulate competition’; liquid asset requirements were superseded by cash reserve requirements; new capital requirements were

imposed, as prescribed by the Basel Accord; foreign banks were allowed to establish branches and buy shares in South African banks, and the latter were permitted to establish offshore interests. Legislation in 1990, amended again in 1994, removed all distinctions between deposit-taking institutions and led to the transformation of almost all of South Africa's building societies into banks which, in turn, became targets for takeover by the larger banking groups. In 1995, there was the abolition of the dual exchange rate system and the end of capital controls on non-residents. Today, South Africa's capital market is large relative to GDP and significantly more liberalised than other BRIC countries (Abiad et al 2008, Schindler 2009). Financial services' (which includes finance, insurance and real estate) contribution to GDP has risen from 11% in 1980 to 15% in 1990 and 21% in 2010. It is the single largest sector of the South African economy in terms of contribution to GDP and its growth has outstripped all other sectors.

The restructuring of the financial sector and the emergence of a small number of specifically financial conglomerates has resulted, with the sector, and the financial system as a whole, being dominated by the 'Big Four' commercial banks. But the restructuring of the financial sector has occurred alongside general corporate restructuring which has seen the 'unbundling' and overseas relisting of many major conglomerates alongside new participation by overseas capital in the financial system. The Big Four are:

- **Standard Bank**: in which the Industrial and Commercial Bank of China now has a 20% stake, and which is the biggest bank in Africa (by assets) and which controls the Liberty Holdings group which includes Liberty Life Insurance (the third biggest insurance company in South Africa today) and Stanlib (the largest unit trust company and second largest investment manager) (Bankscope 2012;
- **ABSA**, the Amalgamated Banks of South Africa, formed in 1991 through the merger of 'Afrikaner' groupings previously under Sanlam – particularly Volkskas and Trust Bank. In 2005 Barclays returned to South Africa and bought a controlling stake in Absa whilst Sanlam undertook extensive unbundling and delisted (Bankscope 2012);
- **The First National Bank**: now part of First Rand Limited financial services conglomerate which is dominated by Rand Merchant Bank and Remgro and which includes Wesbank, Momentum Insurance and Asset Management (Bankscope 2012);
- **The Nedbank Group**: controlled by Old Mutual, previously South African Mutual. Old Mutual demutualised, relisted on several stock exchanges in

1999, established London headquarters and has extensive global holdings (Bankscope 2012). Vitali et al found that 147 corporations control 40% of the monetary value of all transnational corporations (2011). Of the top 50 firms in the centre piece of their 'bow tie' of control, 45 are financial firms and Old Mutual is placed thirtieth of the world's most powerful corporations (see also Du Boff 2011 for suggestive if not convincing critical comments on Vitali et al's methodology).

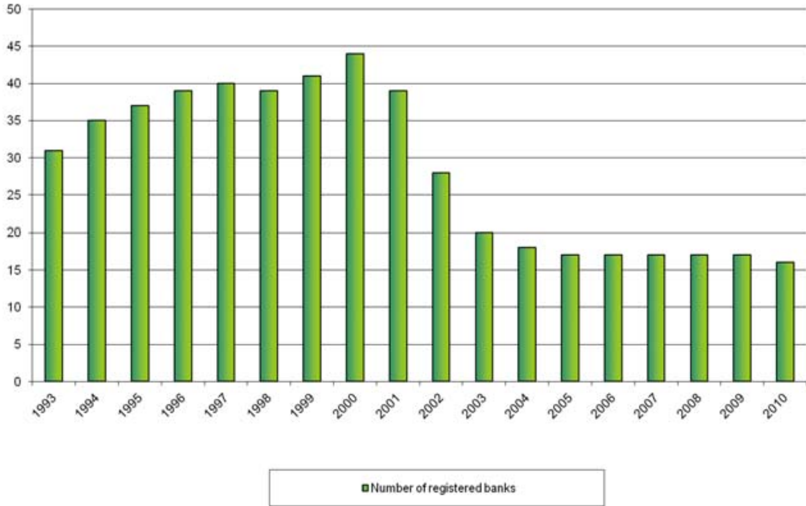
The assets and market share of South African banks are given in Table One. The banking sector is not only extremely concentrated, it has become more so. The number of fully-registered banks in South Africa increased from 35 in 1994 to 44 in 2000. But 2001-2003 saw a major clearing out of the sector (Graph 1) as A2 (smaller) banks were acquired by larger banks (eg Imperial Bank, Mercantile Lisbon and McCarthy Bank), others dissolved (eg Regal Treasury and SAAMBOU, the seventh largest bank in terms of assets at the time) while others (African Merchant Bank, Brait Merchant Bank, Cadiz Investment Bank and Corpcapital Bank) did not apply for renewal of their licences at the end of 2002. In addition Board of Executors (BOE), the sixth largest bank, was absorbed by Nedbank (Hawkins 2003).

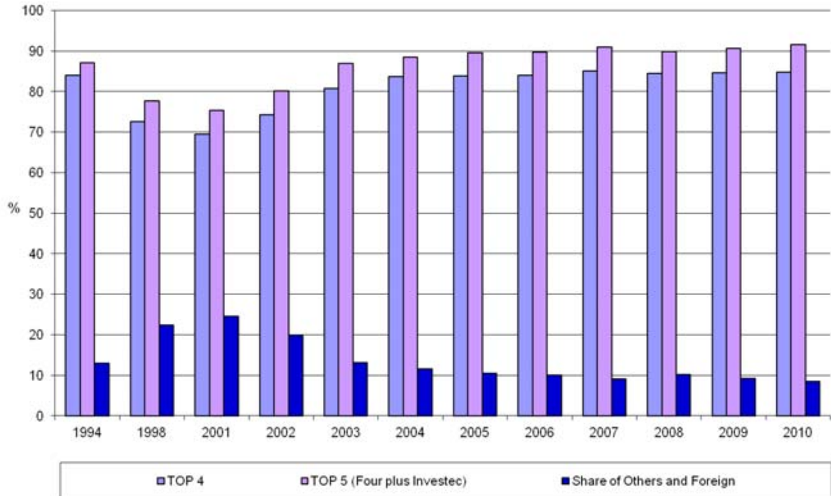
The National Treasury and the South African Reserve Bank commissioned a Task Group to examine competition in South African banking (Falkena et al 2004). The report of the Task Group found that the concentration levels of the South African banking industry are high, but not out of line with other emerging markets. However, it argued that in market segments, rather than at firm level, concentration is even more marked. For example, the 'Big Four' banks accounted for 93% of total deposits made by the public in June 2003, but they accounted for 95.4% of credit card lending, 92.3% of mortgage loans, and 89.5% of instalment finance (Falkena et al 2004: 34). Each of the Big Four has a scale monopoly (25% or more market share) in one or more of the retail market segments. 'FNB has a scale monopoly in instalment sales, ABSA in mortgages and credit cards, Standard Bank in credit cards and Nedbank in overdrafts and other loans' (Falkena et al 2004:34). The concentrated nature of the financial sector is show in Graphs 3 and 4. Concern about these levels of concentration led to the Banking Enquiry established by the Competition Commission in 2006, the specific focus of which was retail banking and the level and structure of charges made by retail banks (Competition Commission 2008, see also Falkena et al 2004, Hawkins 2003).

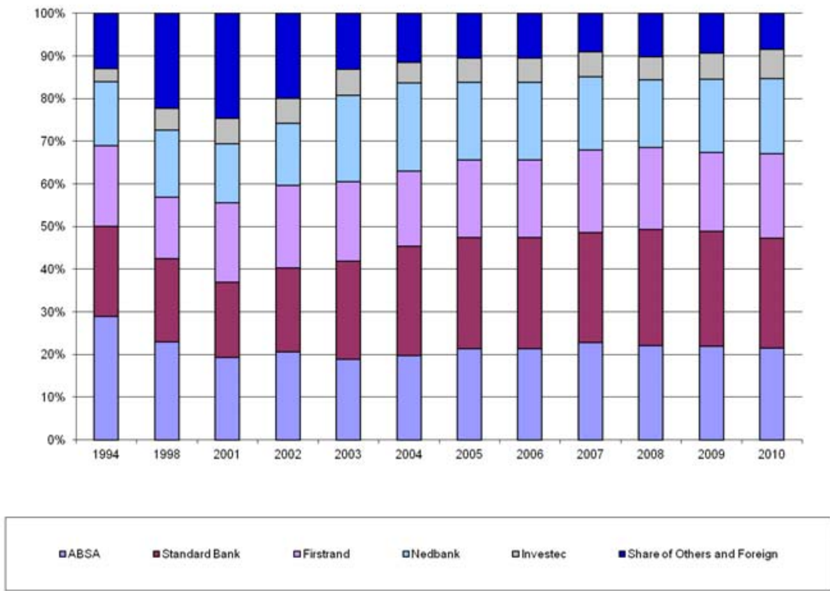
Table One: South African Banks: Assets and Market Shares in 2010

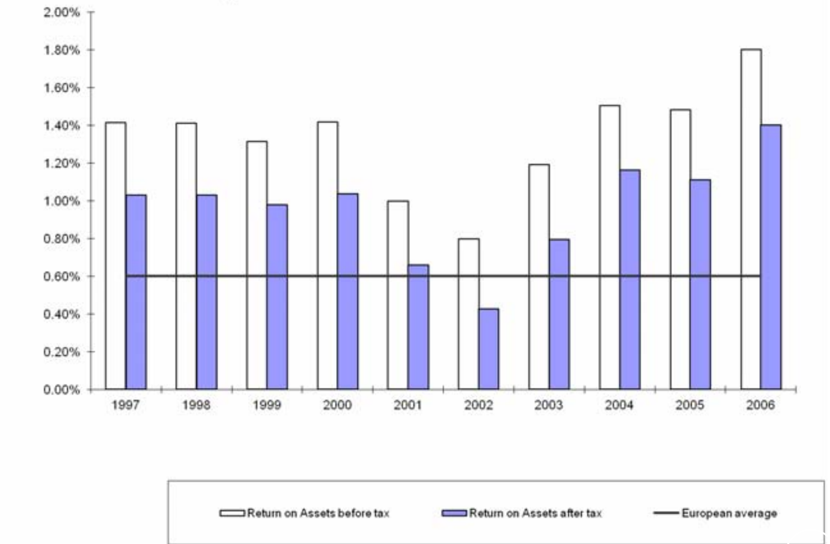
Bank Name	Bank Assets (R'bn)	Market share
The Standard Bank of SA	781 947 804	25.5%
ABSA	663 076 327	21.6%
FirstRand Bank	578 078 265	18.8%
Nedbank	546 961 735	17.8%
Investec Bank	201 501 528	6.6%
Imperial Bank	57 446 288	1.9%
Citibank N.A.	51 068 333	1.7%
Deutsche Bank	34 910 860	1.1%
African Bank	28 103 931	0.9%
JP Morgan Chase	25 758 392	0.8%
Caylon Corporate and Investment Bank	15 918 044	0.5%
Standard Chartered Bank	13 274 633	0.4%
The Hong Kong and Shanghai Banking Corporation	12 871 226	0.4%
Capitec Bank	10 793 359	0.4%
Societe Generale	8 584 122	0.3%
China Construction Bank	6 524 014	0.2%
Mercantile Bank	5 959 348	0.2%
Bank of China	4 760 807	0.2%
The Royal Bank of Scotland	1 879 659	0.1%
Teba Bank	3 520 766	0.1%
Albaraka	2 638 585	0.1%
HBZ Bank	2 065 276	0.1%
Grinrod Bank	2 105 980	0.1%
State Bank of India	2 099 982	0.1%
Bidvest Bank	2 340 742	0.1%
Sasfin	1 550 210	0.1%
The SA Bank of Athens	1 221 759	0.0%
Habib Overseas Bank	734 270	0.0%
GBS Mutual Bank	788 009	0.0%
Bank of Taiwan	738 066	0.0%
Bank of Baroda	455 251	0.0%
VBS Mutual Bank	259 292	0.0%
Total assets	**3 069 936 863**	**100%**

Source: BASA 2010: 3-4:


Graph 1. Number of registered SA banks
50
45
40
35
30
25
20
15
10
5
0
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
Number of registered banks


Graph 2. Market share of assets for selected years: South African Banks
100
90
80
70
60
%
50
40
30
20
10
0
1994
1998
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
TOP 4
TOP 5 (Four plus Investec)
Share of Others and Foreign


Graph 3 Market share of Assets of South African Banks
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
1994
1998
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
ABSA
Standard Bank
Firstrand
Nedbank
Investec
Share of Others and Foreign


Graph 4. Return on Assets - South African banks
2.00%
1.80%
1.60%
1.40%
1.20%
1.00%
0.80%
0.60%
0.40%
0.20%
0.00%
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
Return on Assets before tax
Return on Assets after tax
European average

The leading institutions of the financial system, then, are the few highly concentrated commercial banks whose profitability considerably outstrips their European counterparts (Graph 4) and which are part of larger financial conglomerate groupings. These institutions have extensive branch networks and hold short-term assets and liabilities and, it would seem, largely oversee their own regulation. De-regulation of the financial sector has not increased funds for industry nor the diversification of the economy. Indeed finance for industry has continued to stagnate (Ashman et al 2010a). Instead, however, since around 2004 South Africa has experienced a consumer boom fuelled by high commodity and asset prices and increased household borrowing. High asset prices inflated the capacity of households to borrow and this consumption growth, though limited to around the top 20% of the population, saw total household debt nearly double from R0.7 trillion in 2006 to R1.3 trillion in 2011 (SARB 2011). Household debt stands at around 65% of GDP and loans and advances to the household sector exceed loans to the corporate sector (SARB 2011). The commodity boom and rising asset prices attracted short-term capital inflows, contributing to a strong Rand which further strengthened the consumption boom and led to a surge in import demand. Imports have grown, as has the financial services sector as seen above, while the share of agriculture, industry and manufacturing has fallen. Net flows of portfolio investment were ten times higher than FDI flows in 2010 (SARB 2011).

These flows keep the value of the Rand strong, make cost of labour and inputs higher, and make long-term FDI less attractive. Large portfolio inflows and outflows also increase the volatility of the exchange rate, which tends also to discourage FDI. Portfolio investments keep equity prices higher, which further exacerbates elite consumption. High returns to equities attracts funds away from more long-term lending to the real economy. The cost of borrowing in South Africa is amongst the highest in the world. Banks have no restrictions on their capital market activities and can make portfolio investments which offer quick returns. Inflation targeting compounds the factors above by favouring a relatively high interest rate. The standard interpretation, however, is that South Africa needs short-term portfolio inflows in order to fund its current account deficit. But the current account deficit is worsened by the repatriation of dividend income. South Africa has consistently suffered negative net income transfers. In 2009, income transfers represented 56% of the current account deficit, while the trade deficit accounted for only 21% (World Bank 2011). The portfolio inflows are thus

necessary to fund the outflow of profits that the portfolio inflows earn!

In addition to the above, consumer spending is being supported by rising levels of unsecured debt (as well as real wage increases). According to the National Credit Regulator, unsecured consumer debt in 2012 amounted to R131 billion. Some 62% of unsecured credit agreements are to those earning less than R10,000 a month, and 22% are to those earning less than R15,000 a month. Moneyweb estimates that, for South Africans earning between R3,500 and R10,000 a month, as much as 40% of their income goes toward covering loan repayments (Rees 2012). Of 19.6 million credit active consumers in 2012, 9.2 million of them are 'impaired', ie three or more payments in arrears, or with an adverse listing or judgement or administrative order against their name. This often takes the form of garnishee orders when employers are ordered by the courts to deduct debt repayments directly from workers' salaries – to major retailers of brown and white goods, for example, when consumers fall behind on payments on their higher purchase agreements. In South Africa, there is no limit on how many garnishee orders against one individual's salary, or on how much as a percentage it may be of that salary. Growing indebtedness was seen as an underlying cause of the major strike wave across mining in 2012 which included the killing of 34 Lonmin workers at Marikana on August 16. Many workers were striking for higher wages in part either because garnishee orders were leaving them with little on which to live or because they were indebted to the unsecured lenders operating either outside the mines (and who charge exorbitant interest rates and take workers' debit cards as security), or from the cash loan shops that have sprung up. The growth of the micro-lending sector has been phenomenal in recent years, despite legislation such as the Usury Act aimed at protecting the poor.

Lack of attention to the financial system's capacity to finance investment continues to be a striking theme of the literature on the South African financial system (for example Van Wyk et al 2012). Oligopolistic competition in the financial sector means that the banks are overextended in some assets at the expense of others. Oligopolistic competition in financial markets results in inefficiency, and the failure to produce a full range of financial markets. This is the opposite of the theory motivating liberalisation. Liberalisation in practice, as demonstrated by South Africa, leads to greater concentration amongst financial institutions, higher costs of finance, and the proliferation of asset markets while not necessarily broadening the net provision of the scope of financial services. The stagnation in levels of

investment is not because of the nature of the financial system as narrowly conceived in the mainstream literature; for it remains heavily influenced by the role played by corporate conglomerates. They continue to dominate the industrial core of the economy, which remains in minerals and energy, whilst pursing internationalisation and financialisation strategies of their own. Their oligopolistic domination can discourage new investors because of the difficulties of breaking in to concentrated markets and because of the difficulty of negotiating joint ventures. This is true of domestic capital also. Oligopolistic concentration and divisions between sectors can produce stagnation in levels of investment as a consequence of market power whilst the conglomerates' international vision leads to the growing importance of foreign capital markets, and also widespread, illegal and staggering levels of capital flight (Ashman et al 2011).

How, then, has the South African financial system evolved, and what are the forces driving this evolution? During the last decade or so, the South African economy has experienced consumption-led growth, with household consumption outpacing output and income growth. This 'growth path', facilitated by the financial system, has only served to exacerbate high levels of unemployment and inequality and to hold back development. Macroeconomic policy since 1994 has focused on low inflation, a strong currency, a liberalised trade regime and an increasingly open capital market. All of these have benefited financial interests, including those of the new BEE elite, and the broader corporate interests so intertwined with the financial sector in South Africa, both historically and today. Interests within the financial system may block or promote particular types of both financial and non-financial policies. Finance tends to oppose interventionist industrial policy because it may be threatened by the way that finance is to be raised and deployed by such a policy. Similarly, expansionary macroeconomic policy may well be opposed, in so far as it gives precedence to (public) welfare over conventional macroeconomic policy targets which are conducive to the profitability of the financial sector (inflation targeting and protection of financial assets).

So, as Zysman (1983: 80) argued in a different context some time ago, 'the structure of the national financial system affects the capacity of the national policy executive to intervene in the industrial economy' and 'since the financial system is a constraint on action and an influence on the power relations in the economy, it is an element shaping the arena for industrial and economic politics'. Our discussion of South Africa surely illustrates these

two points. The South African financial system cannot be expected to reform itself or to promote investment in industry/broader employment generation unless it is made to do so. Pressure to do this will not come from corporate South Africa whose conglomerates retain a powerful influence over the financial sector and which are pursuing internationalisation abroad whilst remaining highly concentrated and profitable at home.

7. Conclusions

The discussion of the evolution of South Africa's financial system, under the impetus of global and national factors and forces, has demonstrated the more general theoretical arguments made in this chapter. We have argued that the Financial Systems approach, which has emerged within the discipline of economics, is only marginally superior to the financial liberalisation approach for drawing lessons from comparative experience. It has yielded some surprising results about the potential and necessity for government regulation and intervention, but it has done so on the narrowest of theoretical foundations, and its analysis is incapable of addressing the complexity, variety and the key causal elements of financial systems in practice. The Varieties of Capitalism approach, which has emerged from a broader range of disciplinary locations, is also unsatisfactory given its methodological nationalism and failure to provide a deeper understanding of capital and capitalism, its conflicts as well as its institutional compromises. In the hands of Hall and Soskice (2001) in particular, the approach employs a firm-centric view of institutional variation in order to 'theorize macro-level diversity from a starting point in microeconomics' whilst its reliance on parsimonious taxonomies instead of causal analysis narrows 'the spectrum of economic variation to a single, privileged continuum of difference internal to the advanced capitalism of the Northern Hemisphere' (Peck and Theodore 2007: 745, 750). In the hands of others, the VoC approach is reduced to 'common sense' (Bruff 2011) or vacuous appeals to the necessity for history (Hodgson 1996).

As we have seen, some important questions are at stake. First, is the financial system to be viewed narrowly as financial institutions and activities alone or is it to be conceived more broadly as the system by which industry/ the economy in general is financed – so that understanding it requires consideration of the interaction between financial and other institutions and how they mutually undertake financial functions? Systemic connections exist between industry and finance, but they take different forms and have different outcomes. And, second, if – as we have argued – specific historical

trajectories and class relationships and the patterns of the emergence and interaction of different forms of capital and the state, shape capitalist development in particular place and time, how do we theorise causal processes of change through time?

Addressing this question has important implications for the comparative political economy of capitalism, and its financial systems, more generally. In our alternative approach to both Financial Systems and Varieties of Capitalism, financialisation has been identified as a causal factor in the evolution of national financial systems/systems of accumulation. But various factors at various different levels causally mediate the processes of financialisation in dynamic ways, and so financialisation should not be seen simplistically as a force for convergence. Instead, financialisation needs to be incorporated into conceptions of the variegated and combined and uneven nature of capitalism and the uneven and interdependent development of national and regional capitalisms. Capitalism's general tendencies play out in specific ways in time and space. Much the same can be said about neo-liberalism, of which financialisation is a critical part. Whilst clearly international in nature and containing commonalities in its restructuring programmes, its outcomes vary economically and institutionally, and it cannot be seen as a source of simplistic economic or institutional convergence. That this broad viewpoint is vital historically and analytically should be clear from our discussion of the South African system of accumulation and the non-developmental (broadly understood) role played by finance within it. One consequence of the MEC and now the 'Financialised MEC' is that South Africa has a large, powerful and sophisticated financial system which is undertaking its own internationalisation strategy into other parts of Africa whilst 37 per cent of the population do not even have a bank account (Finscope 2011) and at the same time as there remain crisis levels of unemployment and crisis levels of productive investment combined with critical levels of capital flight, both legal and illegal. Yet, remarkably, all these dimensions remain overlooked in the still largely complacent literature on the South African financial system.

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Notes

1. See (Ingham 1988) for a relatively late contribution to the debate and also (Fine

and Harris 1985).

2. Note that market imperfections economics derives from two main sources. One, focussed on here, is asymmetric information, most closely associated with Stiglitz. The second is increasing returns to scale (or externalities) pioneered by Krugman but with little or no application to finance as opposed to geography and trade (Fine 2010).
3. The market imperfection economics based on increasing returns, etc, does purport to explain systemic uneven development on the basis of where corresponding advantages (first) accrue or not, as in the new economic geography.
4. They immediately continue, 'However, the basic approach should also have relevance for understanding developing economies as well'. Such promise would, or should, inevitably lead to confrontation with the developmental state paradigm as the two share so much in common in view of the state-market dichotomy, methodological nationalism, focus on imperfect markets and coordinating institutions, etc. Arguably, however, the developmental state approach is both richer and less ambitious in scope. For discussion of the developmental state approach in relation to South Africa see (Ashman et al 2010b) and for discussion more broadly see (Fine et al 2013).
5. See also Hall and Soskice 2001: 22-24, and 2001: 19 where it is suggested that there is an inverse relationship between stock market capitalisation and employment protection. And again, 2001: 29:

   > Liberal market economies usually lack the close-knit corporate networks capable of providing investors with inside information about the progress of companies that allows them to supply finance less dependent on quarterly balance sheets and publicly available information. The relevant contrast is with CMEs, where firms need not be as attentive to share price or current profitability in order to ensure access to finance or deter hostile takeovers.

6. Much as the market for 'lemons', or second-hand cars of dubious quality, might induce reputable dealers to organise a collective warranty system (Akerlof 1970).
7. Note that Stiglitz sees the polar opposite of the toilet-paper view of banks as the populist one of the late nineteenth century that considers, 'that banks were running the country' (1985: 134). He concludes that 'economic theory ... is more consistent with what I shall loosely refer to as the Populist view ... Shareholders do not control the firm, and managers do not necessarily act in their interests' (1985: 134). Quite apart from its implications for the role of banks, consider the significance of the conclusion if the firm is understood as the economy, shareholders as the general populace, and managers as the government! This is all from Stiglitz 1985 page 134 as referenced
8. Classic references within the financial systems approach are, respectively, (Corbett 1987 and Cable 1985).

9. With the proliferation of asset types and increasing liberalisation of finance, attention turned away from different banking systems to extent of efficacy of financial markets (Levine 2002).
10. A confidential letter (cited in Verhoef 2009b:141) from Anglo's Harry Oppenheimer to the chairman of the FM board stated that should FM 'or any other company over which it exercised effective control (including General Mining) make any new diamond discoveries or were invited to hand any new diamond venture, such discovery or venture would be offered in the first place to a new company to be formed for that purpose, and the capital of the new company would be owned 51 per cent by De Beers and 49 per cent by Federale Mynbou.'
11. One objection to the MEC analysis is that its focus on mining and energy fails to grasp the importance of the insurance industry in the history of South African capitalism. As should be clear from the analysis presented here, this is to miss the point.

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