

## South African financialisation reflects world economic problems

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The world capitalist crisis moved into a new phase in late September, with the crash of many leading US and European financial institutions. Make no mistake, this crisis is about capitalist dynamics, not merely greed, corruption or financial deregulation, as populist critics emphasise.

University of California historian Robert Brenner described the root causes in *Against the Current* early this year: "The declining economic dynamism of the advanced capitalist world is rooted in a major drop in profitability, caused primarily by a chronic tendency to overcapacity in the world manufacturing sector, going back to the late 1960s and early 1970s."

But while the last eight years did show an upturn in corporate profitability, this was temporary not durable, according to Brenner: "The long slowdown in capital accumulation, as well as corporations' repression of wages to restore their rates of return, along with governments' cuts in social spending to buttress capitalist profits, have resulted in a slowdown in the growth of investment, consumer and government demand, and thus in the growth of demand as a whole. The weakness in aggregate demand, ultimately the consequence of the reduction in profitability, has long constituted the main barrier to growth in advanced capitalist economies. To counter the persistent weakness of aggregate demand, governments, led by the United States, have seen little choice but to underwrite ever greater volumes of debt, through ever more varied and baroque channels, to keep the economy turning over."

Crisis *displacement* techniques of this sort have become much more sophisticated. For roughly the last three decades, the global economy's vast credit expansion and the use of geographical power to move devaluation to Third World and emerging market sites in turn generated vast increases in poverty in most areas of the South. Extra-market coercion including gendered and environmental superexploitation has intensified in the process. The result is an 'uneven and combined development' of capitalism that concentrates wealth and poverty in more intense ways, geographically, and brings capitalist markets and the non-market spheres of society and nature together in ways adverse to the latter, generating mass poverty.

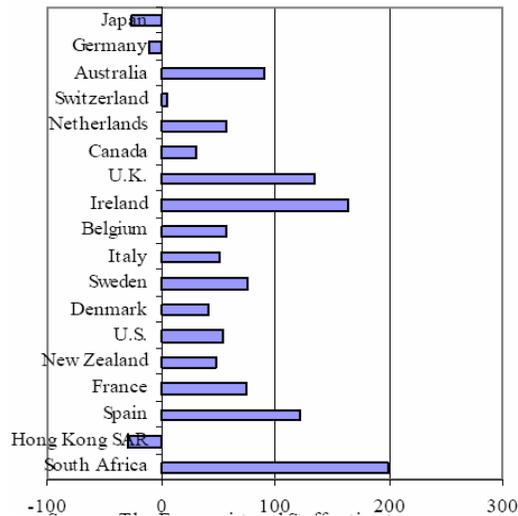
What parallels are there in South Africa? This country also suffers long-term overaccumulation of capital, which was only temporarily escaped by virtue of finance minister Trevor Manuel's exchange control relaxation during the late

1990s. Alec Erwin's trade liberalization from the mid-1990s also made South Africa much more vulnerable to financial contagion, because the emergence of a huge trade deficit compelled more foreign borrowing and inflows of hot-money investments by short-term speculators to pay for the soaring imports.

Until this year, there was optimism that the late 1990s emerging markets currency crises – including South Africa's – could be overcome, and that the offshore relistings of most of the country's largest firms would not adversely affect growth. Indeed, by 2001, the rate of profit for large SA capital was restored from its earlier 1970s-80s downturn, to 9<sup>th</sup> highest amongst the world's major national economies (far ahead of the US and China), according to one British government study.

The reality, though, was that high corporate profits did not reflect sustainable economic development, as a result of persistent deep-rooted contradictions which are a result of unresolved structural problems and neoliberal, anti-poor policy choices. Superficial wealth creation, e.g. in property and housing markets, reflected speculative bubbling not genuine growth. See sidebar.

**The world's most speculative real estate:  
Change in house prices, 1997-04 (%)**

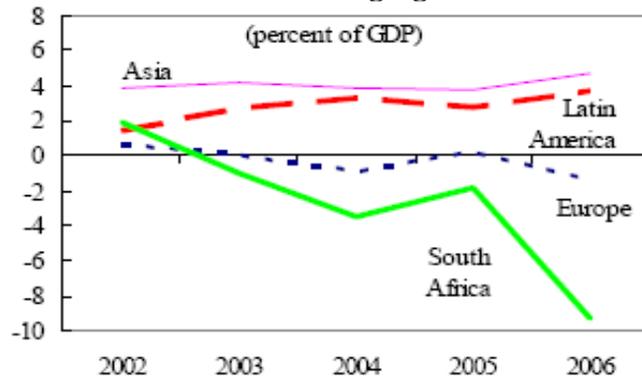


Source: IMF, 'South Africa: Selected Issues', September 2005

The roots of these problems are to be found not only in post-apartheid liberalisation, but in long-standing vulnerabilities in the apartheid-era economy, especially overproduction for a limited market of middle-class white consumers. During the 2000s, instead of a durable class-building project, consumer credit became a quick fix.

Hence amplification of these problems has been obvious in recent months. In addition to credit repayment stress, the current account deficit is dangerously high (-9% in mid-2008) compared to peer economies.

**Current account deficit (annual trade and financial payments shortfall):  
South Africa and other emerging markets as % of GDP**



Source: IMF Article 4 Consultation, 8/07

Although overall corporate profits are up relative to employee wages since the low-point of the late 1980s, a decisive problem is that manufacturing profits have fallen dramatically since the early 1980s in relation to financial and speculative profits. South Africa's export advantages are in a few areas that are difficult to maintain, such as auto components, swimming pool filters, wines, coal and base metals. Moreover, low rates of fixed investment persist, especially in the private sector, in part because excess idle capacity in existing plant and equipment.

That, in turn, helps explain the very low level of Foreign Direct Investment, contrasting with dangerously high inflows of portfolio capital attracted by Tito Mboweni's high interest rates. None of these processes are healthy, and alongside the crash of many real estate markets and unprecedented recent inflation in electricity, petrol and food, will generate yet more social unrest.

Hence some rather obvious economic policy options emerge, which until late September 2008 were simply too radical to raise in polite discourse. The most crucial, perhaps, will be a return to stronger exchange controls (such as the dual rate 'financial rand' which was in place from 1985-95). After all, Malaysia imposed a prohibition on trading its currency offshore in 1998 and thus survived the Asian crisis better than others; China and India did not face that crisis thanks to their exchange controls; and Chile long imposed a 'speed-bump' penalty on incoming hot-money financial flows.

As Blade Nzimande of the SA Communist Party pointed out in his speech to the party's policy conference, the need for such controls was evident in a *Business Times* confession on September 21: "We can be thankful that global turmoil has largely bypassed us". As Nzimande remarks, "Buried deep in the story you will find a critical but coy admission: 'Exchange control means there is a healthy degree of trapped liquidity within the financial system, so funding is not an issue.' And yet it is *precisely Business Times* and the regiments of

economic commentators in the financial media, along with opposition parties, that have consistently called for the accelerated dismantling of exchange controls. We have already gone too far and too fast on this front.”

Given how much Trevor Manuel serves the interests of financiers not the overall society, a new finance minister will be needed next year, if the Left inside the Alliance wants exchange controls and similar much-needed reforms. Unfortunately, the ‘mass resignation’ trickery played by Thabo Mbeki on September 23 ensured dramatic pressure on Kgalema Motlanthe to rehire Manuel, as R50 billion fled SA and the stock market to punish the new government.

Such belligerent powerplays will be more common, reflecting Wall Street’s apparently successful financial blackmail of US taxpayers in early October. This resurgent class struggle from above means trade unions, social movements, communities and consumers must, at long last, seek unity.

The discrete campaigns they have fought so hard since 1994 – access to medicines, basic services and housing, land redistribution, better wages and even a more appropriate credit system – can now be connected, for they are self-reinforcing ‘decommodification’ strategies.

If a ‘conference of the SA Left’ is finally called, it will confront the austerity regime that local and global bankers seek to impose on the world’s working class. And in turn, such a broad front will have to generate an upsurge in coordinated local, national and regional militancy and also advance a unifying political programme, beyond the momentary protests and insider-Alliance strategies that have to date characterized the broad post-apartheid left.

## SIDEBAR:

### SA Economic Contradictions

- With respect to stability, the value of the Rand in fact crashed (against a basket of trading currencies) by more than a quarter in 1996, 1998, 2001, 2006 and 2008, the worst record of any major economy.
- SA's economy has become much more oriented to profit-taking from financial markets than production of real products, in part because of extremely high real interest rates. After a recent 3.5% spike during the mid-2000s, consumer and housing credit markets are badly strained by serious arrears and defaults).
- the two most successful major sectors from 1994-2004 were communications (12.2% growth per year) and finance (7.6%) while labour-intensive sectors such as textiles, footwear and gold mining shrunk by 1-5% per year, and overall, manufacturing as a percentage of GDP also declined;
- Government admits that overall employment growth was -0.2% per year from 1994-2004 - but -0.2% is a vast underestimate of the problem.
- Overall, the problem of "capital strike" – large-scale firms' failure to invest - continues, as gross fixed capital formation hovered between 15-17% from 1994-2004, hardly enough to cover wear-and-tear on equipment;
- Where corporate profits were reinvested it sought returns from speculative real estate and the Johannesburg Stock Exchange: there was a 50% increase in share prices during the first half of the 2000s, and the property boom which began in 1999 had by 2004 sent house prices up by 200% (US markets rose only by 60% prior to the banking collapse; and
- businesses also invested their SA profits, but not mainly in SA: dating from the time of political and economic liberalisation, most of the largest Joburg Stock Exchange firms shifted their funding flows and even their primary share listings to overseas stock markets;
- the outflow of profits and dividends due these firms is one of two crucial reasons SA's 'current account deficit' has soared to amongst the highest in the world (in mid-2008 exceeded only by New Zealand) and is hence a major danger in the event of currency instability;
- the other cause of the current account deficit is the negative trade balance, which can be blamed upon a vast inflow of imports after trade liberalisation, which export growth could not keep up with;

