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Post-Apartheid South African Economy: The Triumph of Capital?

Introduction

To speak about a post-apartheid economy we have to remind ourselves of the main features of the apartheid economic system, that is, the relationship between the system of legislated racial discrimination and economic exploitation. I think it was Jack Woddis, the British Communist, who wrote in the 1960s that the root of fruit of racial discrimination is profit (*Africa, the Roots of Revolt.* Citadel, 1962). During that same period, arch capitalist and mining magnate Michael O'Dowd, of Anglo American and De Beers fame, opined that apartheid and the development of capitalism in South Africa were in contradiction to each other, and that the economic growth of the capitalist system would inevitably lead to the demise of apartheid (the so-called "O'Dowd thesis"). Post-1994, apartheid, at least in the formal legal sense, is gone but capitalism in South Africa is thriving as never before.

Does today's post-apartheid economy contradict either or neither of these two historical views? In what sense should we understand the current economic system as 'post-apartheid'? Which features of current economic and political reality, and more specifically class relations, embody our colonial and apartheid legacy but are modified by a now dominant neoliberal economic order?

Access to land and availability of labour

We need to recall the past. Racial discrimination, colonialist thinking and oppression date back before the rise of Verwoerd and the Nationalist Party in the

1930s and 1940s, to the vagrancy and pass laws of the 18th and 19th centuries, systems designed by the colonisers to exact labour from the indigenous people. The discovery of diamonds and gold in the 19th century, and the expanding farms required to feed the resultant population influx, accelerated the demand for cheap labour. To force indigenous subsistence farmers off their land and create a pool of cheap labour for the mines and farms, additional measures were needed, such as a variety of taxes and the hostel/ migrant labour system. 'Non-whites' did not have the franchise, and were confined, except when their labour was required, to 'Native Reserves', later 'Bantustans/ Independent Homelands'. This migrant labour system was the font of wealth of the mining empire which became the Anglo American Corporation in the 20th century.

The (Natives) Land Act of 1913 denied 'natives' the right to own land outside of designated 'reserves', which constituted about 7% of the land area (later, from 1936 onwards, about 13%). The Land Act of 1913 was only repealed by the Abolition of Racially Based Land Measures Act No 108 of 1991. Since 1994, the Land Reform and Land Re-distribution Programs have transferred less than 2% of white-owned land to blacks. Thus, under the 1996 South African Constitution and the practice of successive governments since then, the pattern of land ownership dating back to the 1930s has essentially been preserved through to the present.

The early gains of the post-1994 period in terms of the social wage – improvements in access to water, electricity, health care, education, municipal services and housing – have been eroded in more recent years, mitigated only in part by a reluctantly developed and corruption-plagued social grant system. In the rural areas, home to about 50% of the population, successive African National Congress (ANC) administrations not only failed to protect farm workers from super-exploitative conditions but were mere spectators to the eviction of hundreds of thousands (4 million over the period 1984 to 2005) of farm workers and their dependents, turning these workers into 'seasonal' and 'casual' workers without access to land. 'Land reform' is essentially non-existent, as may be expected under the 'willing buyer – willing seller' agreement that the ANC accepted during the pre-1994 negotiations.

Shortly before 1994, the system of controls of migration from impoverished rural areas (mainly the ex 'homelands') to urban areas was removed. This factor, combined with a lack of economic development and jobs in the rural areas, resulted in the rapid growth of pre-existing informal settlements around the major cities and towns, and the establishment of a plethora of new informal settlements, constituting an army of mainly unemployed people living in dire circumstances.

In addition, the mechanization of agriculture – in the 1980s and 1990s through to the present – has seen fewer and fewer people employed. The right of people to live on farms was supposed to be preserved through a change in the law, but the net effect has been the forced displacement of about 4 million people between 1984 and 2005. Farm workers were no longer regarded as permanent workers on farms, and were evicted to become unemployed or seasonal workers. In that sense the situation on farms for farm workers is worse than before. Previously they at least had the right to live on a farm while they worked, or even the right to a part of the land. That situation will not change as long as the willing buyer/willing seller policy is in place.

Mining

The story of mining in South Africa, and its past and continued centrality to the economy, can be illustrated through the history of the Anglo American Corporation (now plc). Wikipedia (accessed April 2011) describes Anglo American thus:

> "**Anglo American plc** is a global mining company headquartered in London, United Kingdom. It is a major producer of diamonds, copper, nickel, iron ore and metallurgical and thermal coal and the world's largest producer of platinum, with around 40% of world output. It has operations in Africa, Asia, Australasia, Europe, North America and South America."

But that is far from the whole story. Although the company was only formed in 1917, Anglo American is/was a South African company with its origins in

the diamond and gold rushes of the 19th century. Over the decades, with its diamond subsidiary De Beers, it became the dominant conglomerate in the South African economy. In 1999, through a special mechanism created by the Reserve Bank and the Ministry of Finance, Anglo American was allowed to transfer its accumulated wealth to London, to list on the London Stock Exchange as a British company.

Similarly Gencor, once the Afrikaner counterpart of Anglo American, with interests in gold, coal, pulp and paper, aluminium smelting (Alusaf/ Richard's Bay Minerals) and ferrosteel, merged with/acquired Billiton, transferred its wealth to London and listed on the London Stock Exchange around 1999. Its successor, BHP Billiton is now the largest mining company in the world.

Post-apartheid economic policy has not only preserved the private ownership of land and mines, but entrenched these ownership relations in the new Constitution. There has been a continuity of concessions to these industries by successive ANC governments, in the form of massive infrastructure development to subsidise production (for example through subsidisation of electrical power) and to facilitate export of mainly unprocessed minerals through expansion of rail and port facilities. Tax concessions, especially to the gold mining industry, have been preserved, and through a laissez faire attitude to environmental burdens and occupational health and safety. Sasol, a major strategic investment by the apartheid state, was privatised for a song, and now reaps windfall profits as a privatised company, with the post-apartheid state foregoing the opportunity to tax these windfall profits to recoup some of its capital investment.

Ownership and control of land, mines and major industries not only remains concentrated in the hands of a handful of capitalists as in the past, but ownership of major economic activities has been systematically transferred to foreign capitals, either directly or through the liberalised stock exchange.

The fig leaf that support of (more correctly subsidies to) the mining industry is done in the interests of preserving or creating jobs dropped away completely during the current post-2008 recession. The same subsidised mine owners retrenched thousands of workers in a twinkle of the eye, with scant protest from the government or hindrance by the supposedly rigid labour laws.

The much vaunted attempts to lure foreign direct investment by creating an 'investor friendly' climate through, among other things, the relaxation of exchange controls, have reaped few successes. Foreign investment in the banking and steel sectors, for example, has mainly taken the form of the purchase of existing assets; any foreign exchange used to purchase these assets is immediately recycled by way of dividends to external shareholders.

The relaxation of exchange controls had another devastating consequence. During the period 1998 to 2002, the six largest corporations – Anglo American, Gencor/BHP Billiton (mining conglomerates), Old Mutual, SAB (SA Breweries), and Liberty – moved tens of billions of Rand offshore, and listed as 'foreign' companies. Two major consequences of these actions are the initial movement of a vast amount of capital offshore, out of the control of present or future South African governments, and that future profits made in South Africa would be exported to the now externally listed and domiciled companies. The current balance of payments deficit is to a significant extent attributable to the continued export of profits and dividends to these (and other) now 'foreign' companies.

A succession of post-1994 ANC governments have continued the apartheid era support, subsidization and promotion of heavy industry (oil refineries, synthetic fuels [Sasol], the petrochemical industries, iron and steel, aluminium, cement, coal and nuclear power and motor manufacturing) industry, whilst at the same time presiding over the ruthless destruction of local clothing and textile industries and other small-scale manufacturing industries, with a corresponding reduction in manufacturing jobs that do not fit the neoliberal economic model. The formerly state-owned enterprises Sasol and Iskor (Iron and Steel) were not only privatised at bargain basement prices, but, along with the other heavy industries, have been allowed to continue operating under an essentially self-regulatory environmental regime. The semi-privatised Transnet and South African Airways belong to this list.

These partly or wholly foreign owned industries continue to use environmental resources wastefully, and to poison the air, water and land with the excuse that industries in a 'developing' country should not be expected to comply with 'first world' environmental and safety standards. Alternatively, they threaten to shut down and move production elsewhere if forced to comply with stricter environmental and/ or labour standards. These arguments – that there is a trade-off between protection of workers and the environment and 'competitiveness' (in reality, profitability) – are implicitly or explicitly accepted by government. Indeed government has, post-1994, increased South Africa's vulnerability to these threats by relaxing exchange controls, floating the Rand, allowing speculation in the Rand by both local and foreign capital. This self-created vulnerability is used to excuse their lack of action to protect workers and the environment.

In all of this, the pervasive influence of a ruling party with an 'investment arm' worth in excess of R1.9 billion, and a small core of new black capitalists who have shares in beneficiary companies, and/or who sit on the boards of directors of both local and foreign companies, has yet to be fully uncovered.

Basic facts about the SA economy

Basic data[2]:

Population (2009 estimate), about 50 million.

Gross Domestic Product (GDP): US$277.4 billion (approx. R2 000 billion at R7.5=1US$) (2009) (nominal); $488.6 billion (2009) (PPP – Purchasing Power Parity)

Per capita income: $5,684 (nominal; ranked 76th); $10,136 (PPP; ranked 79th) (2009)

Economically active population: 17.32 million (2009 estimate)

Main economic sectors: mining (world's largest producer of platinum(80% of world production), chromium(40%), major producer of gold(about 10%), major exporter of coal, 3rd largest), automobile assembly, metalworking, machinery, textiles, iron and steel, chemicals, fertilizer, foodstuffs, commercial ship repair.

Main exports: gold, diamonds, platinum, other metals and minerals, machinery and equipment.

External public debt: $67.93 billion (R500 million)(2009 estimate)

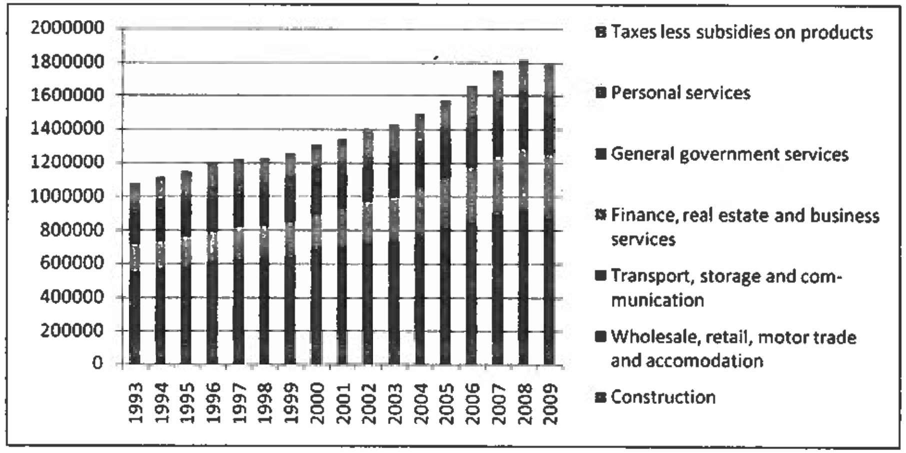

Figure 1: Gross domestic product by industry at constant 2005 prices (R million). **Source:** Statistics South Africa. *Quarterly Labour Force Survey*: Quarter 2 (April to June), 2010. July 2010. www.statssa.gov.za

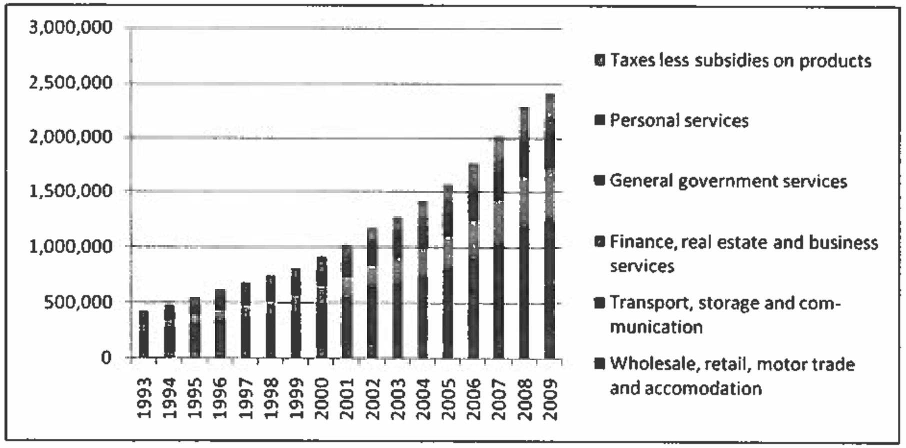

Figure 2: Gross domestic product by industry at current prices (R million) (includes nominal price changes)
Source: H. Bhorat, presentation on Poverty, Inequality and the Nature of Economic Growth in South Africa, consultative meeting convened by the Minister of Economic Development, 8 October 2009. www.pmg.org.za/report/20091008.

Some comments on the basic data

Figures 1 and 2 show an apparently significant increase in gross domestic product (GDP) over the time period, but if population growth is taken into account, the picture is quite different. The total population increased from about 41.0 million in 1995 to about 49.3 million in 2009, an overall increase of 20%, or an annual average increase of about 1.4% per year over the 14-year period. Over the same period, the per capita GDP increased from approximately R27700 to R36100 in 2009 (constant 2005 prices), an increase of 30.6% or less than 2% per year on average.

The 2009 per capita income of about US$10 000 (R75 000, PPP basis) or about $4 700 (R45 000, exchange rate basis) per annum, for example, masks the huge disparities between the highest earners, who receive in excess of R10 million per year, and the more than 40% unemployed, with negligible wage income.

Although poverty levels declined modestly between 1995 and 2005, income inequality increased markedly during the same period, reflected in an increase in South Africa's Gini Coefficient from 0.64 in 1995 to 0.69 in 2005 (a Gini Coefficient of 1.0 constitutes 100% inequality). This made South Africa one of the most unequal developing societies in the world.[3] Even if the income from social grants is included in the estimate of poverty levels, absolute poverty (the percentage of the population living below the 'poverty level') remains high (above 30–40%), and the Gini Coefficient has tended to increase not decline in more recent years.[4] In 1995, the employees' share of the national income was 56% but in 2009 it had declined to 51%.[5] The rich have become richer and the poor have become poorer.

Maximilian Hagemes, writing for the World Bank's Private Sector Development Blog,[6,7] illustrated the problem that average per capita income, based on aggregate national income and population figures, do not reflect income inequality (see Figure 3).

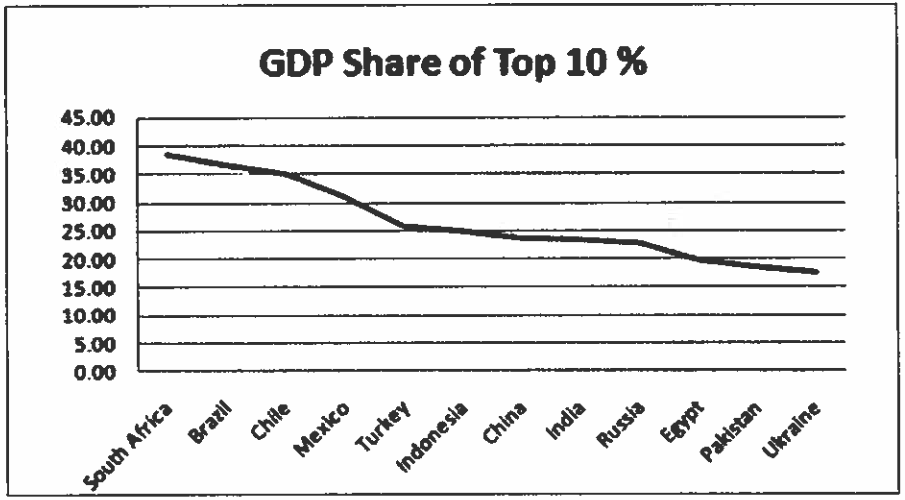

Figure 3: Share of the top 10% earners, selected developing countries

By this measure, of the selected countries South Africa's top 10% earners have the highest share of the national income, nearly 40%. Note that the graph is based on 2007 tax data, and may well underestimate the real income disparities due to the tax avoidance measures of the top earners. In addition, the measurement of GDP does not distinguish between unproductive and even destructive economic activity, let alone the environmental debt left behind by activities such as mining.

The 'public debt' of about R500 billion (25% of annual GDP), equivalent to about R10 000 per person, is deemed (by international capital) to be the responsibility of the population as a whole yet we have little insight as to how this debt was incurred, or what it was used for (the import of arms was one of the items). This puts into perspective Eskom's intention to borrow a further R500 billion over the next five years, thus doubling the external debt, and to refund the payment of this additional debt by increasing electricity tariffs by 2.5 times over the next three years. Talk of borrowing further trillions of rand to fund further expansion of electricity production through the construction of nuclear and coal powered power stations will increase the public debt to

'debt trap' levels, a situation in which a greater and greater share of a country's product is needed to repay interest and capital on external debt, leading to less and less money being available for social services.

Unemployment and employment

South Africa is currently faced with one of the highest unemployment rates in the world.

Employment and unemployment data are highly dependent on the definitions used for these terms and the methodology used to measure the data. The "economically active" are those that are *employed* plus *the unemployed*; the "labour market" is defined as those who are employed, those who are unemployed and those who are not economically active. The definition of an "employed" person is instructive:

"Persons employed in market production activities are those (aged 15–64 years) who *during the reference week, even if it was for only one hour*, did any of the following:

a) Worked for a wage, salary, commission or payment in kind (including paid domestic work)
b) Ran any kind of business, big or small, on their own or with one or more partners
c) Helped *without being paid* in a business run by another household member.
   Persons helping unpaid in such businesses who were temporarily absent in the reference week are not considered as employed, they are routed eventually to questions about: job search activities; their desire to work; and their availability to work – to determine whether they are unemployed or inactive."

In other words, a person is classified as "employed" if s/he worked for one hour during the week before the survey, whether or not that person was paid for that work!

The 1997 Statistics South Africa (StatsSA) study into employment and unemployment,[8] reveals the startlingly low employment rate, and correspondingly high unemployment rate, during the first few post-apartheid years. The StatsSA report concluded that:

- Unemployment in South Africa has increased since 1995. The *official* unemployment rate was 20.0% (1.988 million) in 1994, falling to 16.9% (1.644 million) in 1995 and then rising to 21.0% (2.019 million) in 1996 and to 22.9% (2.238 million) in 1997.
- The *expanded* unemployment rate (including discouraged work seekers) was 31.5% (3.672 million) in 1994, decreasing to 29.2% (3.321 million) in 1995 and then rising to 35.6% (4 197 million) in 1996 and to 37.6% (4.551 million) in 1997.
- On the basis of successive October Household Surveys (OHSs), StatsSA found that, between 1994 and 1997, the labour force participation rate – the percentage of the population aged 15 to 65 years *which was economically active* – showed a decrease from 48% to 44% under the new *official* definition.

To address the question of the current employment/ unemployment situation (and during the intervening period) in detail, we need to consider the changes in the StatsSA definitions of employment/ unemployment and related terms, and the methodology used to gather the data. For the period 1994–1999, 'labour market' information was based on the annual OHS. From 2000 to 2008 this information was based on the semi-annual Labour Force Survey (LFS). Between 2005 and 2008, the methodology was extensively revised. From 2008 to the present, the data are based on the Quarterly Labour Force Surveys (QLFS).

Newsletter 5 of the SAIRR[9] summarised the unemployment situation in the intervening years as follows:

> "The number of unemployed people according to the strict definition increased by 118.1%, from 1 988 000 in 1994, to 4 336 000 in 2007. The strict unemployment rate increased from 20.0% in 1994 to 27.5% in 2007. During the same period, the number of unemployed people according to the expanded definition increased by 113.5%, from 3 672 000 in 1994 to 7 839 000 in 2007."

Table 1: Selected unemployment data: 1994–2007

Year	1994	2000	2006	2007
Unemployment rate (Strict)	20.00%	26.70%	25.60%	25.50%
Number of unemployed (Strict)	1 988 000	4 333 000	4 275 000	4 336 00
Unemployment rate (Expanded)	31.50%	35.50%	39.00%	38.30%
Number of Unemployed (Expanded)	3 672 000	6 553 000	7 958 000	7 839 000

Source: *The South Africa Survey 2007/2008* (SAIRR)
Note: the SAIRR uses a slightly different basis for calculating the expanded unemployment rate than that used by StatsSA.)

What is the position in 2008–10?

Using the official definition, the unemployment rate increased from 22.9% (4.075 million) in 2008 to 25.3% (4.311 million) for the first six months of 2010; the number of unemployed approximately doubled compared with the 1994–97 period.

Using the expanded definition, the unemployment rate increased from 29.2% in 2008 to 36.2% for the first six months of 2010, similar to the levels in 1994–97. The SAIRR figures quoted above, although using a slightly different definition for the expanded unemployment rate, indicate that this measure also approximately doubled between the immediate post-apartheid period and the present.

Note that although the expanded definition is a more realistic estimate of unemployment, both the official and the expanded definitions significantly underestimate true unemployment because both use the biased definition of "employment"; in particular, the definition of "employment" used in the surveys (one hour's work in the previous week) masks the shift from relatively secure jobs to precarious and casual work over the period 1994 to the present.

Employer survey data indicate that the number of employed is about 10% lower than that estimated using household surveys.

In summary, the number of unemployed approximately doubled between 1994 and the present, although the total population only increased by about 20%. In 2010, at least 8 million people do not have jobs, of a population of 50 million. About 13 million are employed[2] (using the broad definition of 'employed' that includes part-time work and occasional casual work as equivalent to full-time work), giving an employment to population ratio of 26%. The figure of 26% may be compared with that of the USA, about 58%[10], with an unemployment rate of 9.5–10%. Dire as the unemployment / employment figures are, the overall data mask the large-scale shedding of jobs in the private sector, illustrated in Figure 4.

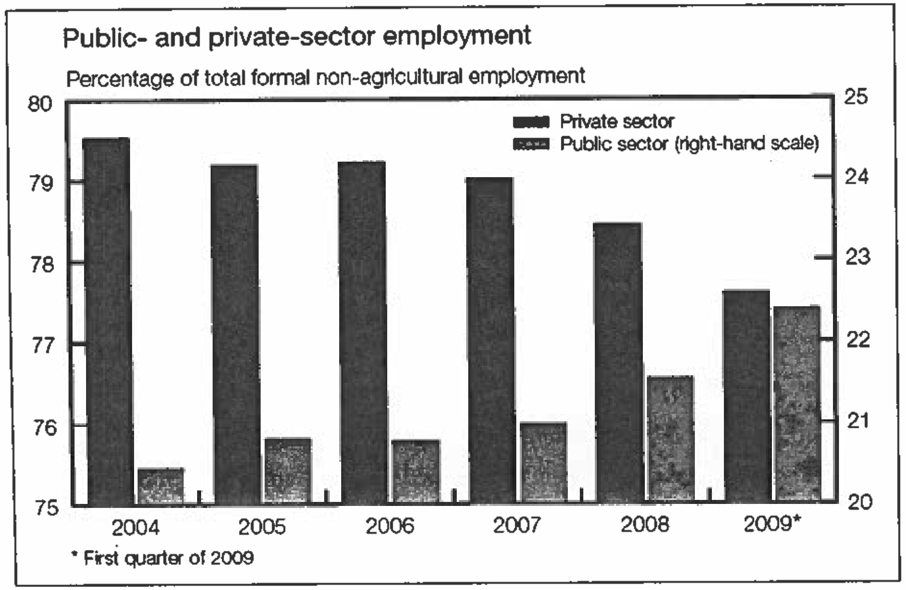

Figure 4: Public and private sector employment (%), 2004–2009
Source: SARB Annual Report, 2008/9

A widely quoted figure is that approximately 1 million jobs were lost during the 2008–2010 period, almost all in the private sector. This loss of jobs is not fully reflected in the official-definition unemployment data for the period because it resulted in a simultaneous substantial increase in the number of discouraged work-seekers.

Apartheid era racially skewed income distribution, underpinned by low wages and high unemployment rates, have by and large been perpetuated to the present, in spite of the policy of black economic empowerment and employment equity laws. Table 2, using apartheid era 'racial' classifications, illustrates the point.

Table 2: Relative per capita personal incomes (% of white level)

Year	White	Coloured	Asian	African	Average
1995	100	20.0	48.4	13.5	26.0
2000	100	23.0	41.0	15.9	28.9
2008	100	22.0	60.0	13.0	23.2

Economic policy

The 1994 elections took place against the background of the demise of the Soviet Union, symbolised by the fall of the Berlin Wall in 1989, and the ascendency of the Thatcher/ Reagan brand of global capitalism from the mid 1980s onwards. Objectively, the new ANC government (initially in coalition with the old National Party and the Inkatha Freedom Party) therefore came to power characterised by rampant international capital implementing its 'globalisation' project, imposing the 'Washington Consensus' through bribery on a grand scale, brainwashing or the blackmail of the international financial system. However, the post-1994 ANC government inherited not only the enormous apartheid-era economic, social and political inequalities, but a country with a substantial state sector (South African Railways/ Transnet, Eskom, SAA, steel production (Iskor), substantial interests in mining and fertilizer production (Foskor) through the

IDC, Sasol, Mossgas, Denel, rigorous foreign exchange controls and substantial secondary industrial (manufacturing) capacity and farming resources. Clark and Bogran (2010) wrote:

> "Soviet economists in the late 1980s noted that the state-owned portion of South Africa's industrial sector was greater than in any country outside the Soviet bloc. The South African government owned and managed almost 40 percent of all wealth-producing assets, including iron and steel works, weapons manufacturing facilities, and energy-producing resources. Government-owned corporations and parastatals were also vital to the services sector. Marketing boards and tariff regulations intervened to influence consumer prices."[11]

In addition, apartheid-era sanctions had trapped considerable capital within South Africa. In other words, considerable capital and productive resources were available to address the huge material inequalities (jobs, housing, education, healthcare, access to land, employment, the wage gap, etc) inherited from the apartheid system. Ownership of private capital was (and still is) racially skewed. Post apartheid, legally entrenched racial discrimination, specifically job discrimination, has been abolished, and there is, relatively speaking, freedom of association. But the post-apartheid economic system is not only firmly based on a full scale embrace of the neoliberal ('Washington Consensus') capitalist economic model, but has also preserved major features of the apartheid economic system. Indeed, behind the scenes, Apartheid-era technocrats and thinking are still driving major features of post-1994 industrial policy, in particular the minerals-energy complex still dominates economic policy.

In the immediate post-1994 period Reserve Bank and Exchange Control rules and regulations were changed to allow the unprecedented externalisation of tens of billions of South African capital. During the period 1994 to 1999, Anglo American, with dominant interests in mining (gold, platinum, coal, diamonds and iron ore) and manufacturing (steel, paper production, downstream manufacturing) during the apartheid era, was allowed to move its capital abroad, to be listed on the London Stock Exchange (LSE) as Anglo American plc. The company used the externalised accumulated wealth of the apartheid era to make large investments in the rest of Africa and in Latin America. Dividends and profits from its South African operations are now exported to London, contributing to the chronic balance of payments deficit.

In 1994–96, Gencor (then with assets in excess of R30 billion), the Afrikaner counterpart to Anglo-American with interests in aluminium (including Alusaf), titanium minerals, steel, ferroalloys, nickel, coal, base metals, marketing, trading and exploration, was allowed to buy the overseas mining group Billiton, listing as Billiton plc on the LSE. This process was overseen ("The South African Reserve Bank has given its warm support for our plans and we are very heartened by its approach") by Derek Keys, former chairman of Gencor and Minister of Finance in the 1994–96 Unity Government. After leaving government, Keys joined the board of Billiton. Today BHP Billiton is the world's largest mining company, with worldwide interests in aluminium (including the energy hungry aluminium smelters of Richards Bay Minerals and Mozal), manganese, coal, iron, copper and other base metals, oil and gas, and nickel.

During 1993–1998 South African Breweries (SAB), the dominant beer producer and marketer in South Africa with more than 90% of the market, diversified and restructured its South African operations, and was allowed to make a number of overseas acquisitions. Under the chairmanship of Cyril Ramaphosa (1997), the process of externalising its operations continued, and in 1999 SAB relocated to headquarters in London as South African Breweries plc, listing on the LSE. In 2002 SAB acquired Miller Brewing Company, the number two US beer maker, to become the second largest beer maker in the world. During 1994–1999 the then largest life insurance company, Old Mutual, was allowed to demutualise and to list on the LSE and other foreign bourses. Liberty Life followed a similar process of demutualisation, restructuring and listing on the LSE.

Immediately after 1994 the new government began the process of rapid privatisation or corporatisation of key state-owned enterprises – Iskor (iron and steel), SAA (South African Airways)/SARH (South African Railways and

Harbours)/ACSA (Airport Company of South Africa) (air and rail transport, ports), Telkom (telecommunications), and the biggest and most important, Eskom (electricity). The privatisation of Iskor proceeded rapidly to completion, with the result that steel production and pricing is now hostage to the world's largest steel producer, Acelor-Mittal.

In the case of SAA, ACSA and Telkom, partial privatisation occurred – minority shares were sold to overseas companies, but in all three cases these shares had to be bought back, at considerable cost, when the external 'partners' ran into financial difficulties. All three entities are nonetheless now run as if they were private companies – committed to maximising profits and maintaining a market dominant position, with the government being the sole or controlling shareholder but with apparently little power to determine the direction of these companies.

Plans to restructure and privatise Eskom collapsed towards the end of the 1990s due to the collapse of Enron and the international market for energy suppliers. Eskom has been corporatised and is now committed to maximising profits and maintaining a market dominant position. Because of its size, it is even more unaccountable than the other state-owned enterprises, able to blackmail government and the public into extortionate price increases, whilst at the same time refusing to move away from coal-based power and blocking the entry of any other competitor into electricity production, whether public or private.

In summary, in the post-1994 period, the largest private mining and industrial conglomerates were allowed to move tens of billions of rand offshore, and to relocate their corporate headquarters to London and elsewhere, thus placing these resources, accumulated on the backs of the South African working class over decades, beyond the reach of subsequent governments. Worst still, profits and dividends generated in South Africa now have to be exported, worsening the balance of payments problem. Simultaneously, the process of privatisation and corporatisation has placed the resources of the largest parastatals essentially beyond the reach of government, but at the same time government has been forced or persuaded to bail out or finance the corporate misdemeanours of these same entities. Examples include the R7 billion to make up the currency

speculation losses of SAA, R12 billion for the Pebble Bed Modular Reactor and about R400 billion to fund Eskom's new overpriced coal fired power stations.

The Reserve Bank, exchange control and the floating of the Rand

The South African Reserve Bank (SARB), which plays the critically important roles of setting benchmark interest rates, regulating foreign exchange transactions and the operations of commercial banks and gathering key economic data, is a private company! The overwhelming majority of the members of the SARB board are private sector representatives, without a single worker representative. The SARB's activities are carefully monitored by the World Bank, with the acquiescence of the South African Government, to ensure that it acts in the interests of local and international finance capital, not that of those of the working class or the population as a whole.

The SARB's role in determining interest rates is the subject of much debate, mainly around whether interest rates should be lowered 'to stimulate the economy' and hence create jobs, or raised to control inflation; what is not debated in any serious way is whether or not either action (raising or lowering the interest rate) produces the desired result. Notwithstanding fundamental criticism (by Joseph Stiglitz, for example) of the underlying assumptions of the type of model used by the SARB, or the empirical disconnect between interest rates and the prices of key commodities such as fuel, electricity or staple foods, the Monetary Policy Committee of the SARB continues to intone the mantra of controlling inflation through the use of interest rates. A computer model that does not account for the fact that important and influential prices of commodities such as steel, fuel (petrol and diesel), coal, maize, wheat, cement and electricity are controlled by monopolies, cartels or administrative action cannot be said to be a model of the real world.

Since 2008 the SARB has increasingly relinquished its role of controlling foreign exchange movements, replacing it with a policy and monitoring role. This, together with allowing the rand to be traded freely on the international market, has rendered both the rand and the economy as a whole extremely vulnerable to speculative attack and the blackmail of international finance. Financial liberalisation resulted in significant exchange rate and capital account volatility, reflected in four exchange rate crises since 1994. Against the US dollar, the Rand has depreciated from around ZAR 2.60 in 1990 to ZAR 7.60 in 2000 to ZAR 11.00 at the end of 2001 followed by an appreciation back to around ZAR 7.50 by mid-2003.[12] In the period October 2008 to March 2009 the Rand depreciated rapidly, to more than R12/US$, before gradually returning to about R7 at present. (Figure 5)

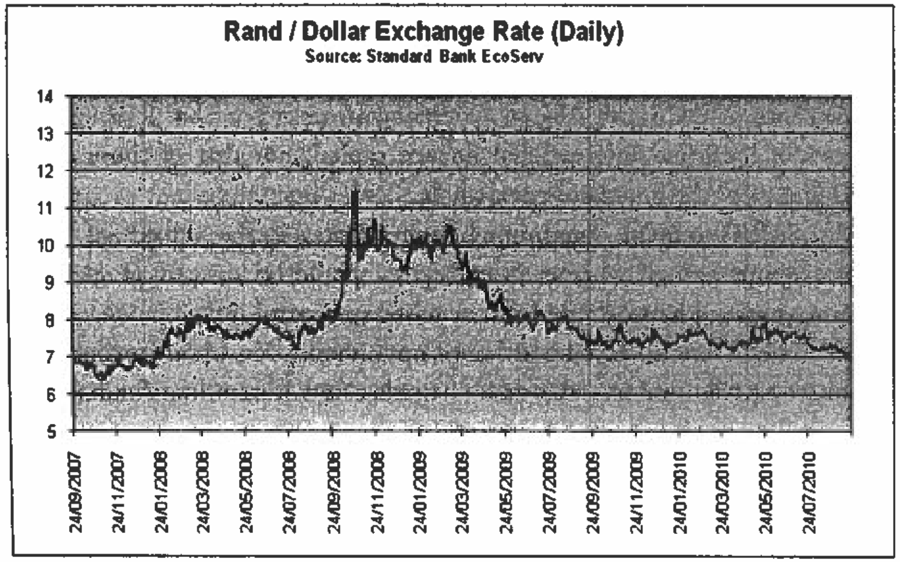

Figure 5: Rand/US$ Exchange Rate (daily average), September 2007 – September 2010
Source: S. Gelb & A. Black. Foreign Direct Investment in South Africa. *180 Investment Strategies in Emerging Markets.*

Foreign Direct Investment

Throughout the post-apartheid period, the role of Foreign Direct Investment (FDI) as the most important driver for growth, jobs and prosperity for all has been trumpeted not only by the captains of industry and the financial world (and their plethora of commentators and consultants), but by successive Finance Ministers. This was – and is – the justification for allowing the Rand to float, removing foreign exchange controls, abandoning import tariffs, continuously attacking 'labour market rigidities' (minimum wages, the right to strike, labour and safety laws, etc.), opposing nationalisation, or even the discussion of nationalisation, attacking environmental standards and environmental protection, promoting privatisation, etc., etc. The theory was and is – if only the working class would allow itself to be beaten into submission, the FDI will flow in, and in the long run, all would be happy. (In the long run, we are all dead!). The argument is that without FDI there can be no growth and hence no jobs. This was the most important argument used to justify the Growth, Employment and Redistribution (GEAR) policy announced in June 1996. Market fundamentalism reigned.

Yet, what has been the record of FDI since 1994? The adoption of neoliberal economics, formulated in the GEAR policy, lead to a number of actions. South Africa joined the WTO (World Trade Organization) in 1995, and signed the GATS (General Agreement on Trade in Services), TRIPS (Trade Related Aspects of Intellectual Property Rights) and TRIMS (Trade-Related Investment Measures) agreements at the same time. Average import tariff levels were reduced from 27.5% to 7% by 1997, with nearly 60% of imports being zero rated. This extremely quick reduction in tariffs was much more rapid than required under WTO developing country rules, resulted in, among a number of other impacts, the near destruction of the clothing and textile industries in a few short years.

Commitment to 'liberalisation' of services (energy, communications and transport, even education) followed, enabling the privatisation or partial privatisation of SAA, Telkom and ACSA described earlier. Foreign exchange control was rapidly dismantled, the two-tier currency system was abolished in March 1995, foreign brokers were allowed to operate on the Johannesburg Stock Exchange (JSE) and foreign banks were allowed to open office in South Africa. This allowed foreign speculation on the JSE, and foreign speculation in the Rand, which has become one of the most heavily traded (and vulnerable) 'emerging market' currencies, in spite of the relatively small size of the South African economy. By 2000, gross non-resident transactions represented 52% of turnover on the (JSE) equity market, and 23% on the bond market.

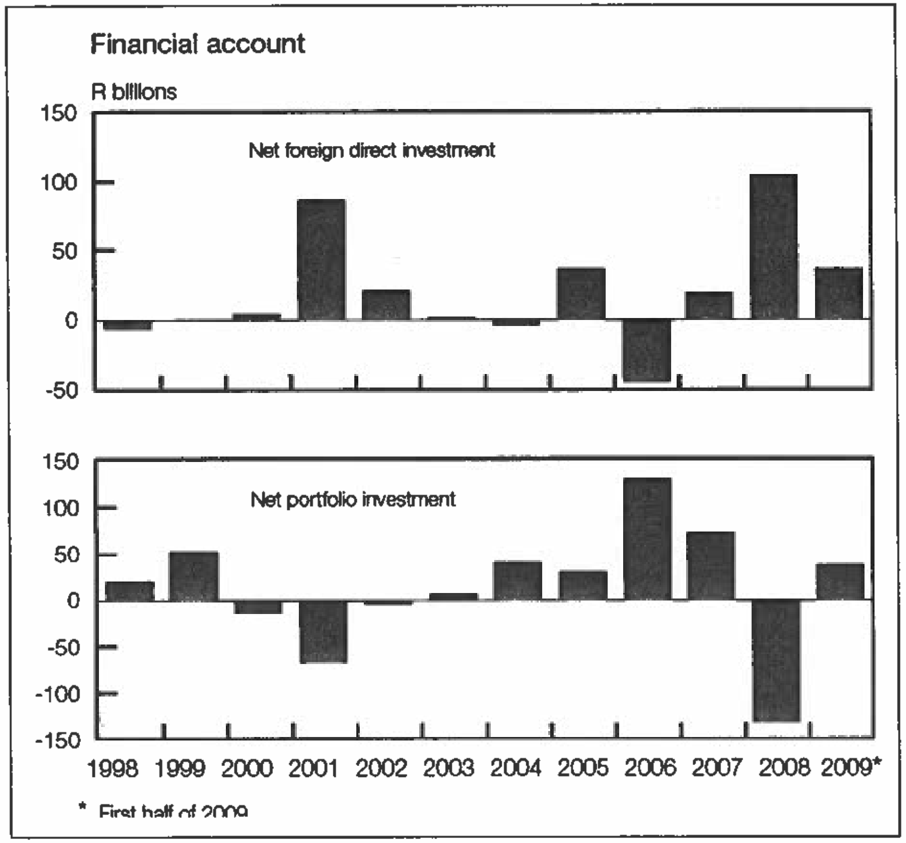

Figure 6: Investment flows, 1998 to 2009
Source: SARB Annual Report 2009

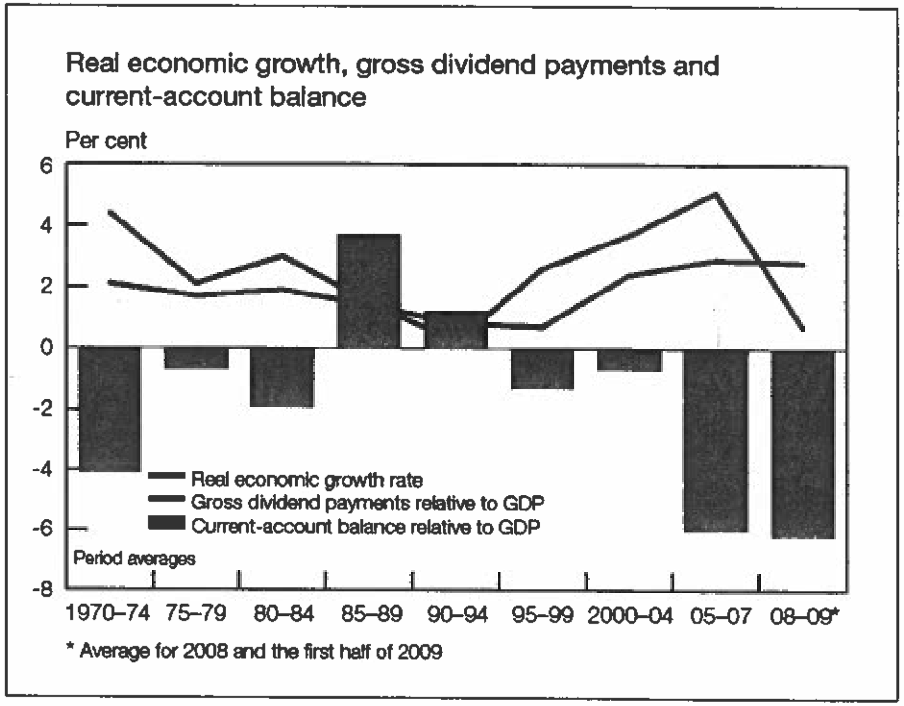

Figure 7: Gross dividend payments in relation to the current-account balance
Source: SARB Annual Report 2009

The idea of using FDI as the engine for growth, job creation etc. has been a dismal failure, with the cost in terms of job losses and lack of job creation being carried mainly by the working class.

Conclusion

While we still have major social and racial problems which have their roots in the apartheid system, economic problems dominate the landscape – such as unemployment at world record rates; the skewed ownership of land; mines and major industries remain not only concentrated in the hands of a handful of capitalists as in the past, but ownership of major economic activities has been systematically transferred to foreign capital either directly or through the liberalized stock exchange. So things have changed but they have changed for the worse. The economic climate has changed for the worst. The Government now says that we have to attract foreign capital and to do so we have to make it easier for capital to leave, but does that make sense? What has happened is that local capital has left already, very little new capital has flowed in, in any real sense, and the net result is that they have lost what little control they might have had over the movement of capital.

To return finally to one of the questions that Lenny posed in his introduction: Is there still an economy based on mining? Yes, there is. In 2009, South Africa is the largest producer of platinum in the world, a significant producer of gold, chromium and so on (at least four or five of the most important minerals): the basic economic structure is the same in terms of the kind of economic activities.

The relations of exploitation are the same as under apartheid, with little change on the margins in terms of the colour of the exploiter. This is a superficial change. Ownership moved overseas, and we can't place that exactly because of how the stock exchange works. Even if ownership is partly local, control is mostly held overseas. So that is the situation we find ourselves in today. Talk about the developmental state and so on, misses the point altogether. The state is not in control of the resources of the economy. The only resources the state has are some bits and pieces collected through taxes, much of which is spent on servicing this exploitative system in one way or the other.

Notes:

1 While Eugene Cairncross is a member of the Coalition for Environmental Justice (CEJ) and a member of WOSA (Worker's Organisation for Socialist Action), this presentation was made in his personal capacity.

2 CIA World Factbook: South Africa: Economy. https://www.cia.gov/library/publications/the-world-factbook/geos/sf.html. Accessed 2 September 2010

3 H. Bhorat, presentation on Poverty, Inequality and the Nature of Economic Growth in South Africa, consultative meeting convened by the Minister of Economic Development, 8 October 2009. www.pmg.org.za/report/20091008.

4 Leibbrandt, M. *et al.* (2010), "Trends in South African Income Distribution and Poverty

since the Fall of Apartheid", *OECD Social, Employment and Migration Working Papers*, No. 101, OECD Publishing, © OECD. doi:10.1787/5kmms0t7p1ms-en

5 COSATU. A Growth Path towards Full Employment. September 2010. www.cosatu.org.za

6 M. Hagemes. 2010. Removing Oligarchs from Per-Capita GDP, January 2010. http://psdblog.worldbank.org/psdblog/2010/01/gdp-inequality.html

7 F. Alvaredo & T. Piketty. 2008. The Dynamics of Income Concentration over the Twentieth Century The Case of Advanced Economies, 2008.

8 FM Orkin. 1998. Unemployment and employment in South Africa. Statistics South Africa.

9 Newsletter 5 – The economic downturn and unemployment – 23 January 2009. www.eumunicipaloutreach.org.za.

10 Employment to Population Ratio, July 2009-2010. www.cepr.org

11 H.R. Clark & A. Bogran. Foreign Direct Investment in South Africa. 6 August 2010.

12 S. Gelb & A. Black. Foreign Direct Investment in South Africa. *180 Investment Strategies in Emerging Markets.*