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POLITICAL ECONOMY OF THE GROWTH AND ASCENDANCY OF THE FINANCE SECTOR IN THE POST-APARTHEID SOUTH AFRICA

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Political Economy of the Growth and Ascendancy of the Finance Sector in the Post-Apartheid South Africa

By

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Abstract

In the Post-apartheid South Africa we witness both the growth and ascendancy of the finance sector. The growth of the finance sector is, in part, a manifestation of the structural and systemic problems of the apartheid economy. Furthermore the very nature of the South African transition and the consequent compromises between the new and old elite underpinned and shaped the neoliberal policies that clearly favour the finance sector in the current period. The broader international neoliberal political economy undoubtedly influenced the shift in the South African economy towards favouring the finance sector at the expense of the productive sector. Central however to understanding the ascendancy of the finance sector in the democratic South Africa, is the role of the ANC-led government and its building of a New Black Elite.

TABLE OF CONTENTS

List of Abbreviations

ANC	African National Congress
BEE	Black Economic Empowerment
COSATU	Congress of South African Trade Unions
DTI	Department of Trade and Industry
FDI	Foreign Direct Investment
GATS	General Agreement on Trade in Services
GEAR	Growth, Employment and Redistribution
IFI	International Financial Institutions
JSE	Johannesburg Stock Exchange
MEC	Mineral Energy Complex
NEDLAC	New Economic Development and Labour Council
PIC	Public Investment Commission
RDP	Reconstruction and Development Programme
SACP	South African Communist Party
SARB	South African Reserve Bank
TRIMs	Trade Related Investment Measures
WB	World Bank
WTO	World Trade Organisation

Time Line[1]

1984	Mass uprisings led by United Democratic Front
1985	Apartheid government declared a state of emergency
	Foreign commercial banks refuse to roll over short-term loans
	Government declared a debt moratorium as response
	Business leaders undertake meetings with ANC in exile and major industrialist signed a document calling for the end of apartheid.
	De Kock Commission: lifting credit and interest rates ceilings
1987	Secret talks between Mandela and apartheid government
	IMF loan due
	Second state of emergency declared
1980s (late)	Deregulation of banking
1989 – 1993	Late Apartheid Economic Depression
1990	Unbanning of liberation organisations and release of Mandela
1993	Government of national unity
1994	Democratic South Africa
	Reserve Bank's independence enshrined in the constitution
	Opening up of the financial system to foreign participation
1994 – 1996	Reconstruction and Development Programme
1995	Capital account liberalised
	Lifting of the financial Rand
	Deregulation of currency controls
	Massive Influx of portfolio investment
1996	Financial Turbulence/Currency crash (Feb-March)
	Mbeki becomes deputy president
1996 – present	Growth Employment and Redistribution macroeconomic programme
	Black Economic Empowerment Policy
1998	Adoption of informal inflation target range of 1% – 5%
	Financial Turbulence/Currency crash (June – July)
	Major SA corporations allowed to delisted from JSE and move to LSE
1999	Mbeki comes into office as president
	Mboweni the First ANC elected official as Governor of the Reserve Bank
	Corporate Tax cut to 30% from 48% in 1994
2000	Adoption of a formal inflation targeting approach
2000 – 2005	Currency swing (R/US$ from 6 to 13.85 in the trough back to 6.6 currently)
2001	Financial Turbulence/Currency Crash (December)
	Adoption of Financial Sector Charter
2002	Financial Sector Commitment to development of BEE
2003	One of the worlds most financially integrated countries but slowest growing economies[2]
2004	10 Years of Democracy
	Financial Sector targets to be applied until 2014
2005 - Current	Public Investment Commission corporatised
	Calls by the Governor of the Reserve Bank for a "competitive" Rand and the doing away of all forex controls

[1] Ashley (2003), Bond (2005)
[2] Prasad (2003:28)

1. Introduction

Since the first democratic elections in 1994 the South African social, political, and economic panorama has undergone numerous changes. Any attempt to understand the nature of the transition, and specifically the changes in the economy in the post-apartheid period, is deeply implicated within the complex historical and contemporary dynamics of the country. This paper is specifically concerned with understanding the political economy of the growth and ascendancy of the financial sector in the post-apartheid South Africa period.

The post-apartheid economic landscape has been marked by its international reintegration and its overt neoliberal macroeconomic shift. Critical analysis of the impact of this international re-integration and neoliberal shift, generally tend to identify a decline of industry, the shedding of jobs, an increase in unemployment, deepening inequality and social dislocation as key consequences. The causes put forth for the macroeconomic shift in the post-apartheid period are: neoliberal globalisation and the economic compromises the new democratic government negotiated in order to gain political power and facilitate a peaceful political dispensation.

This paper seeks not to dispute the economic impact of South Africa's reintegration or the unconcealed macroeconomic neoliberal shifts, neither does it wish to challenge the identified causes or consequences. Rather this paper seeks to build on the analysis by identifying and considering the growth and the ascendancy of the financial sector as a key feature in the post-apartheid era. The new African National Congress (ANC) led government diligently facilitated a neoliberal macroeconomic policy programme that favoured the growth and ascendancy of the financial sector at the expense of the productive sector of the economy. The big question this paper grapples with, is why.

In order to develop an argument regarding the political economy of the growth and ascendancy of the financial sector in post-apartheid South Africa this paper attempts to answer a set of four questions. One, to what extent has there been growth in the finance sector. Two, how have the relevant national economic and political historical and current factors facilitated the ascendancy of the finance sector. Three, how was South Africa's reintegration into the global economy shaped and influenced by the international political economy of neoliberalism with specific attention to whether or not its macroeconomic policy was biased towards the financial sector. Four, what is the impetus for the growth and ascendancy of the finance sector in the post-apartheid South Africa.

By answering the questions outlined above the paper offers a threefold explanation for the ascendancy of finance in South Africa post 1994. Firstly, towards the end of the apartheid period the South African economy was undergoing an economic impasse and experiencing a crisis of profitability and overaccumulation thus the owners of productive capital sought new profitable avenues to redirect its surplus, the finance sector represented one such viable avenue. Secondly, the new black elite have gained political office and power and are eager to acquire economic power, investment in the finance sector represented quick money and a short route to access economic power, thus making them acquiesce to converge interests with international and old domestic interests forlorn. Thirdly, the hegemonic neoliberal international political economy hastened the push towards promoting and implementing the shift from the pro-poor Reconstruction and Development Programme (RDP) to the pro-market Growth, Employment and Redistribution (GEAR) macroeconomic programme which directly favoured both the international and national finance sector at the expense of the industrial sector hence impeding economic development.

1.1. Research Objectives

This paper is aimed at understanding and analysing the political economy of the growth and ascendancy of the financial sector in post-apartheid South Africa. What are the causes and factors that facilitate and propel the ascendancy of the finance sector during the post apartheid period? In particular the paper will examine the relationship between, on the one hand, the economic factor of a decline of profitability of the industrial sector as a driving force to advance the finance sector, the international neoliberal policies that are supportive to the development of financial sector thus influencing the South African macroeconomic policy shift in this direction, and, on the other hand, the new black elites political interests to attain economic power through the finance sector hence the active push to promote and implement policies that favour the finance sector as well as their close association and involvement in the finance sector.

1.2 Approach, scope and limitations of the paper

The approach taken by this paper in order to explain what are the causes and factors that facilitate and propel the ascendancy of the finance sector during the post apartheid period is to engage with scholarly literature that conceptually draws on the notions of a crisis of overaccumulation and a decline in profitability of the industrial sector to help explain the shift towards, and growth in, the finance sector. Furthermore the paper depicts the South African macroeconomic shift towards the finance sector within the dominant international neoliberal paradigm so as to contextualise it within the broader international political economy. Lastly the paper draws on analysis that gives insight into how new political elite with political power seek to gain access to economic power through promoting the finance sector through neoliberal macroeconomic policy thereby securing political power and access to economic power.

The concepts and analysis drawn upon aid in developing an explanation for the ascendancy of the finance sector in the post apartheid period. The approach however is not to simply import or transpose these concepts onto the South

African political economy. This would be a mistake. Instead they are conceptual tools to navigate with and help shed light on the political economy of the growth and ascendancy of the finance sector in the post apartheid period.

Any attempt to understand the unfolding dynamics of the growing finance sector in South Africa and an examination of the notion of its ascendancy needs to be firmly located in the unfolding political economy of South Africa. Therefore, such an analysis has to be historical rooted or runs the risk of being too short sighted and narrow. Furthermore, an understanding of the current neoliberal macroeconomic policy and its potential trajectory requires a reflection on the nature of the transition that gave birth to the ANC-led government and its neoliberal macroeconomic bent. This, however, should not be done without taking cognisance of the broader international economic and political configuration of power, interests and ideological influence.

The international political economic context cannot however be a substitute for the actual analysis and explanations for the material conditions inside South Africa that shape the interests of those in political and economic power. With this in mind, we should be mindful that when examining elite interests (old or new; national or international) it should be viewed as fluid and shifting alliances rather than a single and static mass.

The scope of this paper is to begin to explore the notion of the growth and ascendancy of the finance sector in the post-apartheid South Africa and its determinants. This is not an economic or technical paper in its attempt to understand the various dimensions or the multi-causality of the growth and ascendancy of the finance sector. Hence the paper does not offer a set of stylised facts for the causes and factors that have shaped the growth and ascendancy of the finance sector. Rather, this is a political economy endeavour to begin to bring to light a complex and dynamic set of inter-related processes of State and other actors such as the new and old elite, domestic and international interests, in the making of the political economy of the growth and ascendancy of the finance sector.

Due to the limited time; access to data and resources; lack of fieldwork and interviews with key stakeholders, analysts and scholars; no prior experience or knowledge in the field, the paper confronts numerous challenges and gaps in the exploration of what appears to be the unfolding of the growth and ascendancy of the finance sector in South Africa. Furthermore, due to time constraints the paper is regrettably not able to begin to examine the political and economic consequences of the growth and the ascendancy of the finance sector. Neither is it able to compare South Africa to other countries.

1.3. *Organisation of the paper*

Five chapters follow the introductory chapter. Chapter 2 considers theoretical approaches, which firstly, explain the economic imperatives for the rise of the finance sector; secondly, examines if neoliberalism promotes the finance sector; and thirdly, explores how class and other factors promote the rise of the finance sector in the post-apartheid South Africa. Chapter 3 provides the background of the international context of neoliberalism into which South Africa was required to reintegrate into and seeks to frame the neoliberal macroeconomic shift from RDP to GEAR furthermore it provides an overview of the South African economic and political background and current period, which shapes the ascendancy to finance. Chapter 4 provides an overview of the growth of the finance sector since 1994. Chapter 5 puts forth the threefold analytical explanation of the ascendancy of finance by firstly arguing that there was/is a crisis of overaccumulation and decline of profitability in the industrial sector in South Africa that gives impetus to the growth of the finance sector. Secondly, it attempts to demonstrate the new black elite political motivation, relationship and close association and involvement with the finance sector. Thirdly, it sketches the neoliberal shift from RDP to GEAR and which converge with neoliberal international interests. To this end the last section of the chapter attempts to demonstrate the close relationship between the new black elite's and neoliberal International Financial Institutions. The last chapter of the paper concludes, summarises the contribution of the research and identifies further areas of research.

2. Theoretical Considerations: Growth and Ascendancy of the Finance Sector

This chapter aims to outline conceptual approaches, which are instructive of different explanations for the rise and ascendancy of the finance sector. Three determinants, all of which are separate but interrelated are discussed: economic, ideological, and political factors. First, two approaches that could be used to explain the economic factors in the rise of the finance sector are juxtaposed: the rational choice explanation and the structural approach. The former approach suggests savings as an impetus to the rise and ascendancy of the finance sector while the latter suggests it is a result of a crisis of the profitability in the industrial sector. Second, the chapter discusses why neoliberalism as an ideology promotes the ascendancy of the finance sector while the third section provides political determinants that explain how and why class and other factors also promote the ascendancy of the finance sector.

2.1. Economic Imperative: Rational Choice vs Structural Approaches

<u>The Economic Determinant: An Introduction to the Debate</u>

Different views by economist are held with regards to the economic imperative of growth of the financial system with regards to capitalist development. According to Levine (1997) these could be categorised into several broad views. He highlights that for some economist the growth in the financial system plays a critical role in spurring industrialisation (Bagenot 1873; Hicks 1969). Furthermore, these economists argue that well functioning banks encourage technological innovation therefore successful innovation and thus improved production (Schumpeter 1912). While other economists, Levine notes, declare that "where enterprise leads finance follows"[3], and that economic development creates demands for particular financial arrangements which the financial system will respond to automatically (Robinson, 1952). So far the contrast is simple: the growth in the finance sector can lead to economic growth or that finance sector growth follows economic growth.[4]

Levine adds that other economist do not believe in the finance growth relationship. They argue that there is an over-stress of the role of the economic imperative to develop the finance sector as it does not have a direct relationship to growth (Lucas 1988). Additionally, Levine states, that development economist express scepticism of the need to develop the growth of the finance sector (Chandavarkar 1992).[5]

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[3] Levine (1997:688)
[4] Levine (1997:688)
[5] Levine (1997:688)

Rational Choice Approach: Savings as an Economic Determinant

According to the Rational Choice approach, growth of the finance sector is an economic imperative as this promotes savings and in turn increases investment. This growth occurs when market forces are allowed to predominate through the elimination of government controls that hinder economic growth. The market, not the state, is the best determinant for the effective and efficient allocation if resources. Therefore, the "policy prescriptions were to liberalise financial markets by reducing bureaucratic controls over the allocation of financial resources, and by permitting market forces to exert greater influence on such allocation."[6]

According to the Mackinnon/Shaw (1973) thesis, impediments to the growth in the finance sector retards economic growth because 'financial repression' impacts negatively on savings due to financial disintermediation, low real interest rates, high inflation, misappropriation of savings by government, which impact negatively of the quantity and quality of investment.[7] The growth of the finance sector presumably raises savings and improves the efficiency of investment since it will be allocated to the most productive sectors thus ensuring that lending is productive. In short the "main claim [of the Mackinnon/Shaw thesis] is that, if interests are kept artificially low by the state, savings will be low and inefficient investment will be encouraged, thus fostering underdevelopment."[8]

Drawing upon and expanding this perspective, Levine (1997) argues that the rise of the financial markets and intermediation mitigate market frictions and thereby decrease costs of information and transactions, thus, functions to mobilise savings, allocate resources, exert corporate control, facilitate risk management and ease the trading of goods and services.[9] These functions are important channels for growth according to Levine, as the rise of the finance sector facilitates capital accumulation and technology innovation because the increase of savings is directed as investment finance.[10]

This functional approach[11] to the rise of the finance sector critiques the approach of Shaw with regards to the false division between the 'real' and the financial sector. Levine argues that the "functional approach highlights the added value of the financial sector by defining it as a real sector." [12] This notion that the finance sector is 'real' and contributes to the real capital formation is however challenged by other economists who put forth that financial instruments "may just as well

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[6] Zhang (2000: 6)

[7] Nicholas (2004:14 – 16); Mamoon (2004:1); Zhang (2000:6); Aybar and Lapavitsas (2003:28)

[8] Aybar and Lapavitsas (2003:28)

[9] Levine (1997:690 – 691)

[10] Levine (1997:691)

[11] Post the Asian financial crisis two main currents emerged within the post-Washington consensus. Stiglitz (1996) forwards that a relatively repressed bank-based system with some state control will better promote development as oppose to the market-based system that calls for more liberalisation and an enhanced role of the stock market. The latter perspective, the functional approach, is supported by Levine (1996, 1997) arguing that not less but more liberalisation be conducive for economic development.

[12] Levine (1997:689)

remain in the form of money capital circulating around the financial sector, fuelling the growth of the financial markets which take on a life of their own."[13]

There are additional criticisms regarding the rational choice approach and the functional approach. These criticisms theoretically and empirically scrutinise these approaches on their assumptions and inconclusive findings. Some of these criticisms are that high interest rates in fact damage investment financing and may even damage aggregate domestic savings. The idea that high interest rates correlate with high levels of aggregate savings and thus increase investment is not proved. Investment finance does not come from high interest rates but from retained earnings.[14] Furthermore money market sources of finance tend to raise interests rates and damage aggregate savings and investment. Both money and capital markets provide only limited investment finance as they are short term in nature[15].

At a more fundamental level the problem with the rational choice and functional approach to the growth of the finance sector is its assumption that 'market' forces know best where to allocate savings thus facilitating industrialisation and that the state is an obstacle to the development process. First, the notion that the finance sector and 'market' forces are neutral needs to be problematised as both are embedded in society and therefore represent particular interests. Furthermore, "neo-classical scholars tend to neglect that markets, whether for financial products or commodities, are diverse and complicated social institutions rather than neutral resources-allocating mechanisms."[16]

Second, that an unchecked or unregulated finance sector and market can yield and meet development objectives for the collective good is misleading. According to Polanyi's *Great Transformation* the development of a self-regulated market cannot develop without an active state that regulates market forces, which in turn, ensures that the negative impact of market forces are mitigated.[17] Zhang (2000) clearly argues that

> *financial repression does not necessarily impede economic development if the proper institutional structures in which government intervention is organised are established. Similarly, financial liberalisation does not necessarily lead to the improved efficiency of financial markets if the necessary state action is not taken and supervisory institutions are weak.*[18]

[13] Monthly Review (1983:5). See Aybar and Lapavitsas (2001:28 - 47).
[14] Nicholas (2004: 29)
[15] Nicholas (2004:28)
[16] Zhang (2000: 8)
[17] Drawn from Menocal (2004) and Leys (1996).
[18] Zhang (2000:9)

With regards to the economic imperative for the growth of the finance sector based on the McKinnon/Shaw thesis in the case of South Africa, Pillay (1997), states that,

> *whatever the substance of this theory [Mckinnon/Shaw], its relevance to South Africa is another myth among many which are held to justify the present set of policies and which largely serve to sustain the status quo in the distribution of wealth and ownership in the country. What we have [in South Africa] is a particular heavy concentration of ownership in the hands of a small group of inside investors and virtually a closed system of interlocking ownership relations between banks and corporations. This hardly provides for consistently healthy enterprise performance and financial stability. Rather these arrangements have resulted in corruption, collusive behaviour, speculation, inefficiency and excessive greed to the detriment of the individual savers and their living standards.*[19]

Structural approach: Crisis of Declining Profits in the Industrial Sector

There can be little |doubt that a major revolution has been occurring in the finance sector. This revolution has "made it easier to send the extensive profits, which thanks to overaccumulation can only partially be productively invested, around the world in search of the highest possible returns. The result is a far-reaching financialisation of the economy and the mushrooming of speculative financial flows."[20] This structural approach to understanding the economic imperative for the growth of the finance sector explains that the growth of the finance sector is a reaction to stagnating or contractionary growth and the falling rates of profits in the industrial sector. This crisis drives capital into the finance sector in search of higher returns, which is hastened by new technologies and deepening internationalisation.[21]

This approach is used by Bond (2000; 2004) to explain the economic imperatives for the rise of the finance sector in South Africa today.[22] Bond argues that the nature of the South African transition and its shift to neoliberalism is as a result of the crisis of over accumulation.[23] The focus of his work is therefore about the

> *particular 'form' of capital" and "highlights in naming its subject 'neoliberalism': away from white, sub-imperial 'settler capital' whose accumulation the past century and a quarter was based on (often artificially) available cheap black labour, the extraction of minerals and generation of cheap electricity and the production of protected luxury goods. Some have termed this type of capitalism*

[19] Pillay (1997:107)
[20] Went (2000:93)
[21] Went (2000:93)
[22] Bond (2000) draws on Brenner, Fine, Harvey, Sweezy, Hilferding, de Brunhoff and Mandel to develop his approach.
[23] Bond (2000:9) defines overaccumulation as a situation where excessive investment has occurred and goods cannot be brought to the market profitability. This is a product of the capitalist self-contradiction. That is its general tendency towards an increased capital-labour ratio in production (more machines in relation to workers) in order to remain competitive. But intensified automation results in the rate of profits to fall as surplus value cannot be extracted from machines but only generated through the exploitation of labour in production.

'racial fordism'...[T]his explanation distracts us from more durable aspects of capital accumulation and crisis formation... [W]hat form of capital accumulation lies ahead? More of the same? 'Post-Fordism'? Or just a deeper accumulation crises born from the neoliberal orientation to financial speculation rather than productive profit-making.[24]

Bond argues that it is the latter that is taking place in South Africa. For him this is clearly evident today by the "unused plants and equipment; huge gluts of unsold commodities; an unusually large number of unemployed workers and ... the inordinate rise of financial markets."[25] This process of overaccumulation causes crisis in an economy and skews the balance between different sectors of the economy, which bring about "severe imbalances between different sectors and 'departments' of production"[26] that in turn worsen the crisis.

In highlighting the crisis of overaccumulation, Bond argues that it is this process that

enhances the control and speculative functions of finance. The argument is that as overaccumulation begins to set in, as structural bottlenecks emerge, and as profits falls in the productive sectors of an economy, capitalists begin to shift their investible funds out of reinvestment plants, equipment and labour power and instead seek refuge in financial assets.[27]

Bond's analysis attempts to demonstrate that financial power became eminent with the decline of the South African economy and that what he terms as "financial shenanigans" has contributed to the economy's vulnerability by further skewing the finance/production relationship.[28] The contribution aids in explaining how the crisis of overaccumulation and capital's dependence upon the globalising strategies of South African conglomerates[29] begin to lend insight into the rise of the finance sector in South Africa.

The economic imperative for the shift in the economy towards the finance sector as forwarded by this approach is not about the need to develop the finance sector so as to improve savings and therefore increase investment. This approach illustrates that the development and growth of this sector has been pushed by the search for greater returns, which is a consequence of declining profits in the industrial sector, a crisis of overaccumulation, and neoliberal policies locally and abroad. The latter advances the need to develop the financial sector so as to facilitate economic growth.

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[24] Bond (2000:5)
[25] Bond (2000:10)
[26] Bond (2000:11)
[27] Bond (2000:11)
[28] Bond (2000:26)
[29] Fine (2002:7)

2.2. *Ideological Imperatives: Neoliberal Policies*

One explanation to understanding why neoliberal policies promote the growth of the finance sector is due to its belief in the finance-growth nexus.[30] The logic of the neoliberal argument is that a 'self-regulated' finance sector is imperative and that political interference is 'undesirable'. It follows, therefore, that independence of the central bank, inflation targeting and limited state influence over monetary policy are fundamentally important.[31] "The virtues of market forces and minimalist states"[32] underscore the argument for 'self-regulated' finance market. It deems 'self-regulation' as neutral, depoliticised, rational and technical in nature. It is only through 'self-regulated' finance markets that efficiency and rational choices will occur, therefore, the drive by neoliberal proponents to call for the liberalisation and deregulation of capital accounts and controls. The argument, as already outlined above by the rational choice and functional approach, is that the finance sector, when liberalised, will facilitate economic efficiency and therefore economic growth and development.

Pillay (1997) argues[33] that in the above approach[34] identifies "a particularly strong resonance within the political establishment and the South African mining-finance conglomerates by virtue of what were seen as the dangers of 'populism' – of putting in place far reaching redistributive mechanisms through Keynesian type interventionary policies."[35] It is for these reasons that the independence of the Reserve bank was secured in the interim constitution.[36] Key to this neoliberal approach is to impress upon the Governor of the Reserve Bank that his main duty is to "control and reduce the rate of price inflation and protect the stability of currency, domestic and externally." Unfortunately, to the detriment of the South African economy, other key considerations of the negative consequences of high interest rates (due to a tight monetary stance) such as a decline of private investment, low growth and high unemployment seemed to be lacking.[37]

It is with the above in mind that a key concern in the growth of the finance sector is due to its effects on the real sector of the economy. If the neoliberal approach to the finance sector enhances efficiency thereby allowing an economy to produce more and further industrialise so much the better. "But if dynamics in the finance sector causes unemployment and lost production, or increase economic inequality, that is what matters, not the fact that a stock index or currency rose or

[30] Levine (1997:2;34)
[31] Bienefeld (2000:115)
[32] Zhang (2000:5)
[33] Pillay draws on Bowles and White (1994) and Barro (1995). Their studies show that there is little evidence of any relationship between central bank independence and the rate of inflation.
[34] Pillay refers to this approach as 'global neoclassicism' and further argues that it has been under sustained attack by economists.
[35] Pillay (1997:118)
[36] Saul (2001:7)
[37] Pillay (1997:119)

fell in value. In an era when the hegemony of global finance is unprecedented, it is important to not to invert what matters and what is only derivative interest."[38]

Neoliberal policies appear to promote the growth of the finance sector in so far as it liberates finance to move around the world unhindered without binding it to long-term productive investment due to the relaxation of national regulations and restrictions. This has come about due to "the liberalisation of capital movements,"[39] which has accelerated short-term movements of capital.[40] According to Went (2000),

> *[t]hese changes in the financial sector also have negative effects on productive sector investment and job growth. Among the major consequences of the 'financialisation'[41] of the world economy are: short-term thinking on the financial markets; macroeconomic instability because of increase financial volatility; and a policy bias towards protecting the value of financial assets rather than expanding output. The financial sector, controlled by banks and other financial institutions, functions today in large independently of the real economy.*[42]

Furthermore, these policies impede the state's intervention in directing finance to particular sectors in the economy. These policies also hamstring the state's ability to determine interests rates, provide and direct credit subsidies to particular industries that it deems important in the development process because neoliberal macroeconomic fiscal and monetary policy emphasise market forces as key to development.

The critique of neoliberal policies with regards to its bias towards the finance sector is that firstly, neoliberalism should be understood itself as a political and economic response to economic stagnation, the search for increased sources of profits and political crisis [43]. It has less to do with economic rationale of increased efficiency and improved competitiveness but rather "the unbridled search for higher profits, cheaper inputs and new markets on a global scale" and in order to achieve this there has been "pressure on governments to soften rules and eliminate obstacles to cross-border capital movements."[44] From this perspective we might better understand why the call for the independence of the reserve bank, the emphasis on keeping inflation low, opening up the finance sector and financial liberalisation in general have a strong political economy dimension due both to economic and political motivations.

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[38] Hahnel (2002:172)
[39] Went (2000:12)
[40] Went (2000:13)
[41] This paper will draw on Epstein (2002:2) reference to 'financialisation' as "the increasing importance of financial markets, financial motives, financial institutions, and financial elites in the operations of the economy and its governing institutions, both at the national and international levels."
[42] Went (2000:15)
[43] Bello (2002)
[44] Went (2000:94)

According to Bello (2002) neoliberal policies of financial liberalisation is about facilitating footloose capital. When looking at the driving forces that pushed International Monetary Fund (IMF) neoliberal structural adjustment programmes (SAPs) and its macroeconomic policy requirements to liberalise finance some have argued "that financial regulation and management is, first and foremost, a political matter, not an economic or technical one."[45]

When considering neoliberal policies and in particular its bias towards the finance sector (national or international) we could begin to consider that financial deregulation and liberalisation in less neutral and technical terms because regulating finance and capital flows "as Keynes pointed out ... are inherently political precisely because they respond to policies in accordance with the priority that these give to the interests of capital."[46] With this in mind "Epstein argued that the notion of central bank independence is a misnomer: usually, central bank independence from government implies central bank dependence on the financial sector (Epstein, 1981, 1982)."[47]

It is for the above reason that Pillay (1997) calls for the contextualisation of approaches to monetary policy after 1990 in South Africa. He demonstrates clearly that during the apartheid regime "the South African Reserve Bank has been the creature of the government in power"[48]and that during the height of political uncertainty there were decisive moves to ensure that it became independent and that monetary 'neutrality' become the order of the day so that "the trade-off between price stability, private financial power, economic growth, etc., which are likely to be made through the political process, according to this view [of 'neutrality], should not affect the independence of the banking system and in particular that of the Reserve Bank."[49]

According to the empirical study conducted by Epstein (2002) he argues that the neoliberal policies to ensure the independence of the central bank and inflation targeting, in particular, and in this regard to liberalisation of finance in general, has no empirical foundation and that the driving force is the increasing role of financialisation in the world economy.[50] Epstein (2002) argues that the independence of the central bank policy due to financial liberalisation and globalisation are "increasingly guided by rentier interests at the expense of both labor and industry (Epstein, 1994)."[51] Furthermore he argues that the best way to understand central bank independence and neoliberalism within the broader context is as "contested terrains" of class and intra-class conflict over the distribution of income and power in the macroeconomy.[52]

[45] Bienefeld (200:114)
[46] Bienefeld (200:119)
[47] Epstein (2002:16)
[48] Pillay (1997:107)
[49] Pillay (997:108)
[50] Epstein (2002:1 – 5)
[51] Epstein (2002:17)
[52] Epstein (2002:17)

Due to the above mentioned reasons, Williams and Taylor (2000) argue that the role of the international discourse and influence of neoliberalism has been underestimated in understanding the policy shift that has occurred in South Africa.[53] Not withstanding the economic factors that constrained the ANC's space to manoeuvre, Williams and Taylor (2000) argue that the International Financial Institutions (IFIs) were hard at work to push the neoliberal line upon the ANC and that "in the face of a well-funded and co-ordinated onslaught from neoliberal intellectuals and institutions, the ANC's pro-redistribution cadres were marginalised."[54] For Williams and Taylor (2000), the IFIs attempt to ensure economic policies in South Africa devoid of political motives that should be neutral should be distrusted as "'economics' is not an inherently rational, technical process: it is a social activity in which various interests compete to determine who gets what, when and how on a global scale."[55]

2.3. Political Imperatives: How and Why Class and Other Factors Promotes the Ascendancy of the Finance Sector

Having examined the above explanations to the rise and ascendancy of the finance sector, there is an inclination to argue that the crisis of overaccumulation and rise of neoliberal policies are useful analytical tools in understanding the processes unfolding in South Africa today with regards to the developments of the finance sector and the macroeconomic choices being employed.

But are these sufficient explanations to understand why a new democratically elected black government in the post-apartheid period are seemingly bent to promote neoliberal policies that favour the rise of the finance sector? What other factors, motivations and influences need to be taken into account in trying to understand the ascendancy of the finance sector in the political economy of South Africa today? Three determinants come to mind almost at once: (1) the international finance interest as embodied by the IFIs, which reflect the interests of the most powerful states and their corporations in the world[56], (2) the influence and interests of South African white bourgeoisie to facilitate the expansion and growth of their corporations on the state[57], and (3) the motivations of the new ANC political elite as both governor and administrator of the South African state and a new bourgeoning black elite who possess a desire to access economic

[53] Williams and Taylor (2000:21)
[54] Williams and Taylor (2000:35)
[55] Williams and Taylor (2000:37)
[56] Drawing on Bond (2000); Michie and Padayachee (1997); Habib 1998) who articulate that the external pressures of capital and IFIs played a decisive role in shaping money policy and neoliberal policy that is pro-finance sector.
[57] To understand the intricacies of white South African bourgeoisie influence in determining the extensive opening of the economy to market forces we draw on Saul (2001), Marais (1998), Fine (1996).

power and secure political power[58]. In other words, what are the imperatives of establishing and actively creating a black capitalist class for the South African State and ANC led government?

The recent works of Andreasson (2005), Iheduru (2004) and Southall (2004) attempt to offer different analysis on the emerging black capitalist class in South Africa. As their respective titles suggest, "The reliance of Comprador Capitalism: "New" Economic Groups in Southern Africa," "The ANC and Black Capitalism in South Africa," and "Black economic power and nation-building in post-apartheid South Africa," these are all attempts to give some insight into the imperatives of establishing a new black elite and class.

Andreasson suggests that,

> *"New" capitalist elites have emerged across Southern Africa, promoted by government policy and taking advantage of the removal of laws barring black Africans from the economic commanding heights. Old capital, prospering under colonial and Apartheid rule, has accommodated itself to new realities, and in many cases entrenched economic groups played key roles in moderating, and arguably "hijacking," political transitions across the region.*[59]

The importance of Andreasson's work is that he indirectly alerts us to how the state is still vestige of political and economic power. That the state is still an important avenue for both new and old elite to establish or retain, in the case of the latter, control over the commanding heights of the economy. In his work he offers two historical trajectories that shape state and market relations in Southern Africa namely the need to integrate and adjust to neoliberal post-Cold war global economies and for governments to structurally transform economies that have marked unevenness.[60] Furthermore the emergence of new economic groups impact on the nature of the state-market relations and with time interests might 'coalesce' and/or even clash.[61]

Drawing on the works of Habib and Padayachee (2000), Andreasson argues that

> *New economic actors emerge when political and economic liberalization increases "points of entry" to economic (and political) activities for those previously marginalised or barred from entry ... A key point of contention in the debate on the aims and roles of these groups is whether old, entrenched actors are simply in the business of "grooming" a new comprador class to serve (or at least not actively oppose) their interests, or if they are indeed making an effort to facilitate empowerment by engaging with and supporting the new economic groups emerging as a result of political and economic liberalization*[62].

In the case of South Africa, the preferred "points of entry" are reflected by the ANC-led governments choice of a "neoliberal option" as espoused by its

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[58] Andreasson 2005, Iheduru 2004
[59] Andreasson (2005:1)
[60] Andreasson (2005:2)
[61] Andreasson (2005:2;3)
[62] Andreasson (2005:3)

macroeconomic policy, GEAR, above a "revolutionary path" or "radical reforming path."[63] This option serves the interests of the white elite as well as the interests of the IFIs, thus, "appeasing financials and business interest first" over the "plight of the impoverished South Africans".[64] For Andreasson the verdict is still out on whether the ""new" economic groups are compradors or agents of transformations."[65] In considering Andreasson's analyses, the political imperative for creating a black capitalist class is either to establish this class so as to develop a 'patriotic' bourgeoisie through a market driven model and, hence, "transformation and broad-based development along a "third way" economic model" or the "maintenance of the status quo: new economic groups are co-opted by (or incorporated with) old ones. This is essentially the generic liberal preference, where "trickle down" development is held out as a longer-term possibility, thus keeping a lid on any outbursts of popular demands for improvements in living conditions."[66]

Iheduru's (2004) contribution to understanding the political imperative is from the vantage point of the elite in power. He offers an explanation as to why it is important to create a black capitalist class that aligns itself to the ANC-led government. According to Iheduru (2004), during the Mandela era the policy was ambivalent with regards to developing a black capitalist class because the ANC-led government wanted to avert any predatory behaviour such as looting the nations wealth or fostering corruption.[67] The state's approach was an effort to democratise capitalism,[68] however, due to international pressure to adopt neoliberal policies,[69] GEAR was met with opposition and disenchantment by popular forces. As a consequence, the ANC-led government earnestly embarked on a Black Economic Empowerment (BEE) strategy to cushion black political power from any threat.[70]

This building of a black elite is important according to Iheduru (2004) because there are growing tensions between the ANC and its alliance partners. In order to secure its position of power and office, the development and establishment of a black capitalist class in the Mbeki era would safeguard the ANC-led government in leadership from any substantial electoral challenge and could diffuse tensions. Furthermore, according to Iheduru (2004) "the ascent of a black capitalist class (BEE) is a *sine qua non* for political stability in a non-racial South Africa ... [but a] less black state-dependency would facilitate the creation of a 'growth coalition' capable of sustainable capitalist development and true empowerment of the

[63] Szeftel (2004:195)
[64] Andreasson (2005:7). For an account of financial/business lobbies see Koelble (2004); Gumede (2005).
[65] Andreasson (2005:16)
[66] Andreasson (2005:17)
[67] Iheduru (2004:7-8)
[68] According to McKingly (2002) the ANC pursues an elite-led, liberal democratic and deracialised capitalism at the expense of real transformation.
[69] Iheduru (2004:7)
[70] Iheduru (2004:8–9)

black majority."[71] Unfortunately Iheduru (2004) does not at all critically reflect on the negative impact of neoliberal policies on the larger society even though BEE might be in favour of building a black elite at the expense of building a broader 'growth coalition.'

The work of Southall (2004) does, however, question the ANC-led government's strategy to build a black capitalist class. He argues that even though the aim is to create a class that is "both patriotic and productive" there are "considerable dangers of Asian-style cronyism."[72] He argues that the ANCs argument to establish a black bourgeoisie is "once stripped of its Marxist jargon, this is an essentially neoclassical argument, which elevates the importance of private entrepreneurs, in this case black ones, in the creation of wealth."[73] With the states active involvement in creating a black bourgeoisie there is a "thin line between patriotism and parasitism."[74] In Southhall's (2005) Harold Wolpe Memorial Trust Presentation, he questions if a "kinder capitalism" is possible and weather BEE can "drive us towards a more humane, more democratic capitalism?" He seems to suggest not and argues that what is occurring in South Africa "echoes British experience of growth of influence of finance capital and institutional investors."[75]

Southall cautions any idealism that a black capitalist class would be more patriotic. He argues that,

> *Since 1994 South African capitalism is more like contemporary capitalism of western world; no longer contained and protected by state imposed barriers, domestic conglomerates have unbundled and internationalized; international and domestic finance capital increasingly dominant over manufacturing; shareholding concentrated in hands of institutional investors, whose fates determined by managers who are less and less accountable to even shareholders and even the law; gap between top executives and workforces widening alarmingly in a country where patterns of inequality deeply entrenched. BEE may promote a black bourgeoisie, but seems more likely at present time to blur boundaries of race and class than to propel South African capitalism in a more inclusive, accountable and equalizing direction.*[76]

[71] Iheduru (2004:26)
[72] Southall (2004:313)
[73] Southall (2004:326)
[74] Southall (2004:327)
[75] Southhall (2005:2)
[76] Southall (2005:3),.

3. South African Political and Economic Snapshot: Locating the current Neoliberal landscape

This chapter explores the political and economic background of South Africa's reintegration into the global economy. It seeks to frame the neoliberal macroeconomic shift from RDP to GEAR. It also offers a brief background on South Africa's economic and political policies that have and continue to shape the ascendancy of the finance sector. This section discusses first the dynamics and balance of forces of the South African transition that paved the road to Neoliberalism. Second, it puts forth the post-apartheid economic strategy, specifically the neoliberal shift from RDP to GEAR and highlights the key economic indicators during this period, noting in particular the decline in the industrial sector and growth in the finance sector. Third, it introduces the black economic and empowerment (BEE) strategy for the state to secure political power and re-configure economic power.

3.1. Political and Economic Background: Dynamics and Balance of Forces of the South African Transition that paved the road to Neoliberalism

Arguments that examine the balance of forces, which shaped the nature of the South African transition, tend to place emphasis on the internal systemic and structural problems of the South African economy or/and over-emphasises the external changing international context of capitalist globalisation and its economic rules and the dictates that constrain South African policy choices. Other arguments emphasise the historical, ideological and political economy trends and contradictions of the negotiated settlements to understand the shift toward neoliberalism in South Africa. On the extreme end of the spectrum some argue that a negotiated settlement in and of itself foreclosed any real possibility of fundamental change in society.

By reflecting on these arguments we are able to briefly establish if it identifies directly or indirectly the interests of the domestic finance sector as a factor in the balance of forces that shaped the transition and thus the subsequent period of South African democracy, or/and if the nature of the transition perhaps set the conditions for the growth of the finance sector and its ascendancy in the post-apartheid period.

The old regime, recognising that the system of apartheid was under threat, quickly put measures in place to safeguard their gains. This, in part, resulted in negotiated discussions. It was for this reason Saul (2001) writes that,

> *the door to the transition was being opened by some behind the barricades of white power: it was becoming evident by the later 1980s to both dominant business circles and sufficient numbers within the ruling political elite that a*

situation of relative stalemate had been reached and that some steps would have to be taken to incorporate the ANC into the circle of legitimate political players.[77]

Thus the democratic dispensation and the ushering in of the 1994 ANC-led government is a result of a negotiated settlement. Political power was the victory of the ANC-led government and economic power remained squarely and firmly in those hands that controlled the means of production before 1994.

The most significant change as a result of the transition was the shift in macroeconomic policy from the RDP towards an outwardly neoliberal position in the form of the GEAR. The shift from RDP to GEAR enabled the rapid changes that were brought about in the finance sector. Of direct significance for the finance sector was the liberalisation of the capital account and the lifting of exchange and capital control.

One explanation for the shift towards neoliberal policies is that the ANC-led government was constrained by the internationalisation of capital (Habib 1998). The pressure that was exerted from those quarters was overwhelming given South Africa's need and dependence on foreign investment and export-led growth strategy. This reliance held the new government captive to the global economic rules and dictates. As a result, the democratically elected government had little choice but to adopt neoliberal policies[78].

This reading of the balance of forces in South Africa is far too steeped towards the sway of external factors, it neglects the agency of the State as well as the domestic capital interests. The shift towards neoliberalism might have been more aligned to domestic capital interests given the Mineral Energy Complex paradoxes and contradictions that arose with the decline of the economy in the 1980s[79].

An added dimension to the explanation for the shift towards neoliberal policy is that "South African business and media, aided and abetted by the international financial agencies and Western diplomatic representatives, waged a relentless and effective campaign to win the ANC leadership to neo-liberal economic ideas".[80] This campaign demonstrates both the South African business interests that promoted a neoliberal agenda as well as the convergence of interests between domestic and international capital.

Any recognition of domestic and international interests whilst failing to understand the role of the state in securing its interest ought to be problematised. The notion that the new South African State was toothless under the power of

[77] Saul (2001:3)
[78] Habib, Slabbert, Moodley (1998)
[79] These paradoxes increased speculative domestic activity and illegal capital flight at the expense of productive investment. Deregulation gave way to further acquisitions in the finance sector. The financial system was geared to financial services (Fine 1996: 175)
[80] Michie and Padayachee (1997:2)

global economic rules and dictates fails to recognise what Meikisins Woods (2003) so clearly articulates. She argues that

> *the state lies at the very heart of the new global system ... [I]t continues to play its essential role in creating and maintaining the conditions of capital accumulation; no other institution, no transnational agency, has ever begun to replace the nation state as an administrative and coercive guarantor of social order, property relations, stability or contractual predictability, or any of the basic conditions required by capital in its everyday life.*[81]

If we concede that the State is the guarantor of capital's interests then Saul's (2001) contribution to the analysis further helps us to understand the shift towards neoliberal policies. He forwards that considering the events between 1990 (after the unbanning of the ANC) and 1994 (the elections), the alterations in the perspectives towards neoliberalism were secured through a set of economic policies and agreements. Saul argues that "[t]hroughout the 1990s the ANC's economic policies have shown a clear shift towards greater acceptance of the market... (one sealed) finally in the GEAR proposals of June, 1996. But if 1996 was the crucial year for putting the finishing touches on the ANC's capitulation to neo-liberal orthodoxy, it seems plausible to argue that the dye had already been cast during the transition period itself. As Hein Marais observes, "by 1994... the left had lost the macroeconomic battle."[82]

The most significant of these agreements included the guaranteeing of property rights, the autonomy and independence of the Reserve Bank in the Interim Constitution, signing of the 'market friendly' IMF letter of Intent tied to a balance of payment loan, agreeing to the Uruguay Round of GATTs Saul highlights that the aforementioned agreements occurred "in the sphere of economic/class relationships [and] were far less public than the formal meetings of the Convention for a Democratic South Africa (Codesa) and the Kempton Park negotiations."[83]

It is to this end that Ashley (2003) argues that 'the transition in South Africa can only be understood within the concrete circumstances underlined by the relations between the main social forces in the country, played out within the constraints imposed by further development of productive forces." [84] For Ashley (2003) the interests of domestic capital is critical in understanding the nature of the transition and in particular he notes that "if globalisation is an effective means to understand shifts towards neoliberal policies it is more in relation to pressure coming from South Africa's conglomerates to internationalise than pressure coming from international capital seeking to enter the South African market."[85]

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[81] Woods (2003:120)
[82] Saul (2001:7)
[83] Saul (2001:7)
[84] Ashley(2003:41)
[85] Ashley (2003:35)

The issue mostly debated is the degree to which the ANC played a role in the negotiations. Even observers such as Michie and Padayachee, who place the causes of the neoliberal shifts less on the role of the ANC per se, argue that

> *in the process of negotiations, certain concessions were made by the ANC in respect of economic issues which served to blunt the movement's economic weapons, close down policy options, and slow down the process of transforming the institutions, structures and personnel so crucial to the successful economic transition.*[86]

The pressures of neoliberal globalisation as well as the historical trends of the South African political economy and its continuities shaped the transition.[87] Although the objective of the liberation movement was to seize power, it did not do so, instead Marais (1998) forwards that the negotiated settlement was a partial seizure of power and in fact the ANC did not transform the state but was instead assimilated into it. Furthermore Marais argues "that the transition should be understood less as a miraculous historical rupture than as the (as yet inconclusive) outcome of a concrete and far-reaching attempt to resolve an ensemble of political, ideological and economic contradictions that have accumulated steadily since the 1970s."[88] Marais' contribution to understanding the shift of the ANC government towards neoliberalism demonstrates the complexities under which the new government succumbed to both external and internal forces and interests.

3.2. Post Apartheid Economic Strategy – The Neoliberal Policy Shift: From RDP to GEAR as Pro-Finance Sector

> *The evolution of ANC economic policy: A short walk to orthodoxy.*[89]

In 1996, GEAR demonstrated that "the ANC governments' economic policy had acquired an overt class character, and was unabashedly geared to service, the prerogatives of national and international capital and the aspirations of the black bourgeoisie."[90] The latter is vehemently pushed by the government's BEE policy, which purports to be in the interests of all blacks.

Today there can be no doubt that the ANC government postulates neoliberal ideas and adheres to neoliberal policies. Since it's coming to power in 1994 it has forwarded two macroeconomic policies namely the Reconstruction and Development Programme (1994 – 1996) and the Growth, Employment and Redistribution Strategy (1996 to current period).

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[86] Michie and Padayachee (1997:11)
[87] Marais (1998:2)
[88] Marais (1998:2)
[89] Marais (1998:146)
[90] Marais (1998:147)

The RDP, as it's name suggested, sought to improve the lives of the vast majority of South Africans. It was not a pro-socialist policy as critics of the RDP often claimed, but neither was it an overtly neoliberal policy. It was based on mixed economy principles. "It contained an amalgam of development approaches – mixing neoliberal prescriptions with some residual Keynesian regulation, corporatist processes with a 'people-driven' approach, ostensibly firm commitment to redistribution with stern macroeconomic strictures."[91] Given the backlogs that the apartheid system had engendered, a development programme for South Africa was sorely needed in order to meet the basic needs of ordinary people.

The RDP aim was to electrify, house and educate the nation, provide jobs, health, water and the much needed social service delivery that was denied to black people during apartheid. The RDP, according to Marais (1998), "claimed to be an 'integrated, coherent socio-economic policy framework' aimed at redressing the poverty and deprivation of apartheid, developing human resources, building and restructuring the economy, and democratizing the state."[92]

The RDP was envisaged to be the engine to bring about economic and political transformation in the new South Africa. But only two years later, in 1996 the RDP office was shut down and the programme was abandoned without any discussion or consultation[93]. GEAR was ceremoniously ushered in as a continuation of the RDP. Progressive sectors of society challenged the abandoning of the RDP for GEAR, as GEAR by all intents and purposes was a self-imposed structural adjustment programme drifting firmly away from the pro-poor RDP programme.

Hence, even the faint resemblance to the original RDP base document, which was significantly altered to make all sectors of society (predominately Capital) consent to the RDP as a government policy, was swept under the carpet. With it went the original stress to restructure the economy in order to meet the basic needs of the poor but also the importance of restructuring the financial system, which "it [originally] said 'does not sufficiently direct savings into productive activity nor into critical areas of infrastructural development' and, instead, encourages the scramble for short-term speculative profits.'"[94]

With GEAR as the adopted policy by the state, the message was clear: opening up of the economy meant the eliminations of all impediments, restrictions and barriers to trade, investment and finance. This message was clearest in its attempt to build business confidence. The Minister of Finance, Trevor Manuel (1997) assured business that the GEAR strategy was in place:

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[91] Marais (1998:179)
[92] Marais (1998:180)
[93] Bond (2001:90)
[94] Marais (1998:148)

our monetary and financial policies are aimed at containing the inflationary impact of the currency depreciation and protecting the integrity of our banking system and capital markets. Consistent with the opening up of the economy to international trade and capital flows, approximately fifty percent of exchange control measures have been abolished and the remaining exchange controls will in due course be phased out.[95]

The implementation of the ANC-led government's orthodox policy was fast and furious deepening some of the neoliberal processes already underway since the early 1990s. For instance South Africa reduced its average tariff rates for all goods from 11 per cent to 5.6 per cent during the 1990 to 1998 period.[96] Further, it surpassed even the General Agreement on Tariffs and Trade (GATT) requirements in Agriculture, Forestry, Fishing and Manufacturing (41.2 per cent and 16.1 per cent respectively) reduction of tariffs to 2.25 per cent and 5.6 per cent respectively in 1998.[97]

Unfortunately for the South African government, deregulation and liberalisation equals economic development. The South African government has and continues to be hard at work to attract FDI. Of the $865 billion flow in 1999 of FDI to all countries of the world, Africa received a meagre $10 billion of which South Africa received 1.4 per cent.[98] Of this, 80 per cent is accounted for in the buying of shares in South African companies.[99] The remaining 20 per cent did not result in a big expansion of productive capacity as 60 per cent of this went into mergers and takeovers.[100]

GEAR was championed as the locomotive to growth and higher investment levels. That said, on average according to figures tabulated by Falkena et al (2001) Gross Fixed Capital Formation (GFCF) as a percentage of GDP has not increased during the GEAR period. The periods 1980 to1989; 1990 to1994; 1995 to 1999; and 2000 to 2004 showed percentages of 21.8 per cent; 16.1 per cent; 15.9 per cent; 16.1 per cent respectively.[101]

With regards to industry as a percentage of GDP, between 1980 to1994, the value added of industry as a percentage of GDP declined by some 13 percent. The first democratically elected government inherited an economy that was in 1994 only delivering 34,98 percent of industry value added as a percentage of GDP as compared to 48,2 percent in 1980. Within less than five years of the inauguration of the new ANC-led government, it stood at an all time low of 31 percent. In 2002 it recovered slightly to 32,06%. In total there was a 3 percent decline between 1994 and 2002.[102]

[95] Manuel (1997:2)
[96] Nicholson (2001:27)
[97] Nicholson (2001:27)
[98] *Business Day*, 8/10/2000
[99] South African Survey, 1999/2000
[100] BusinessMap SA Investment Report 1999
[101] Falkena et al (2001:156)
[102] Annexure:figure1

On the growth front Gelb (2005) notes that, "the average rate of growth between 1994 and 2003 was 2.77 percent per annum, but since population growth averaged 2 percent, the annual *per capita* increase was barely positive at 0.77 percent per annum. This is indeed 'unspectacular', with unemployment rate in 2003 of 42.1 per cent."[103]

According to Natrass (2004) the unemployment performance is nothing short of dire.[104] She argues, "between 1990 and 2001, non-agricultural formal employment declined by over 20 percent. [Furthermore] South African nonagricultural employment is now lower than it was 20 years ago".[105] Natrass' empirical findings indicate that there has been a decline in public sector, manufacturing, non-agriculture and mining employment. The economy has shed more than 1 million jobs since 1994.[106]

With regards to savings, balance of payments and foreign reserves since 1994 national savings have remained between 14.5 and 17 percent of GDP, compared to 25 percent in 1984.[107] The current account has been in slight deficit since 1994 but since 1999 it has been in balance with a net capital inflow. Reserves however have increased substantially over the last few years[108].

The real financial sector output as a percentage of GDP during the following periods: 1980 to1989; 1990 to1994; 1995 to 1999; and 2000 to 2004 showed percentages of 14,8 per cent; 16,1 per cent; 17,2 per cent; and 17,5 per cent respectively. Similarly we see an increase of the real financial sector capital formation and a percentage of GFCF of 21,6 per cent; 22,9 per cent; 23,1 per cent; and 23,5 per cent respectively.[109]

When looking at the RDP and GEAR period with regards to economic growth, budget deficit to GDP changes, inflation rates, real prime lending rates between 1994 – 2002 (table 1) and percentage change of income inequality in 1995 and 2000 (table 2), it becomes evident that the new government's attempt to rectifying the economic disequilibria from the previous decade through the neoliberal GEAR policy has not rectified the social disequilibria.

GEAR was forwarded as a necessary policy for South Africa's reintegration into the world economy as it would improve the economy. Mainstream economists locally and abroad herald South Africa's re-entry and integration into the world economy as commendable given the enormous challenges that the new democratically elected government faced. Ten years into the new democracy it is

[103] Gelb (2005:367)
[104] Natrass (2004:141)
[105] Natrass (2004:142)
[106] Gumede (2005:101)
[107] Gelb (2005:388). See annexure: Figure 2 – National Savings as a share of GDP, 1982 – 2003
[108] Gelb 2005, pp. 390. See annexure: Figure 3 – Balance of payments, 1982 – 2003
[109] Falkena et al (2001:156)

safe to say that the South African government has been hard at work to integrate itself into the global economy and in the words of South Africa's Finance Minister, it claims that "as an emerging market, South Africa has rightly earned a reputation for sound fiscal management and a progressive opening up of its financial markets, within a prudent regulatory regime."[110]

During the RDP period the economy experienced high budget deficits to GDP ratios, high inflation rates with lower interest rates, but its highest growth rates were coupled with a massive rollout programme of social service delivery. With the implementation of GEAR, the economy experienced much lower growth, growing unemployment, declining inflation rates, reduced budget deficits coupled with higher interest rates and cuts in primary corporate taxes[111].

Table 1. Economic and social indicators, South Africa, 1994-2002[112]

	1994	1995	1996	1997	1998	1999	2000	2001	2002
Economic growth	3.2%	3.1%	4.3%	2.6%	0.8%	2.0%	3.5%	2.8%	2.9%
Inflation rate	8.8%	8.7%	7.3%	8.6%	6.9%	5.2%	5.4%	5.7%	8.8%
Real prime lending rate	6.8%	9.2%	12.2%	11.4%	14.9%	12.8%	9.1%	8.1%	6.0%
Exchange rate (R/$US), year end	R3.54	R3.65	R4.68	R4.87	R5.86	R6.15	R7.57	R12.13	R8.51
Budget deficit/GDP	5.1%	4.5%	4.6%	3.8%	2.3%	2.0%	2.0%	1.4%	2.1%

What did these changes mean for a country in desperate need to redress the gross racial social inequalities inherited from the apartheid period? It would appear, when restricting ourselves to the same economic paradigm of indicators into Rands and Cents, that during the GEAR period income levels of the poor and, in particular, African households have declined and with a widening gap between the income share of the bottom and top 20% of households (table 2).

Table 2. Income inequality[113]

	1995	2000	% change
Income share of bottom 20% of households	1.87%	1.63%	-12.8%
Income share of top 20% of households	35.05%	35.13%	+0.2%
Gini coefficient	0.56	0.57	+1.8%
Income of African households (2000 Rand)	R32 000	R26 000	-18.8%
Income of White households (2000 Rand)	R137 000	R158 000	+15.3%

It is clear that global integration and supposed acceptable deficits have come at a high social cost for the vast majority of South Africans:

> *Looking back over the last six years [from 2002], we see that the GEAR policies – solidly conforming to the so-called "Washington Consensus" macroeconomic approach...succeeded in reducing inflation; the budget deficit fell; the current account deficit fell; and real interest rates rose. But real growth of GDP has*

[110] Manuel (2004:1)
[111] Bond (2005:262).
[112] Heintz (2003:3)
[113] Heintz (2003:5)

stagnated; investment as a share of GDP is low by international standards; foreign inflows of direct investment are modest at best; the Rand fluctuated tremendously and declined precipitously last year. .[114]

This section on the shift from RDP to GEAR demonstrates the overt Neoliberal macroeconomic path chosen and implemented since 1996. In so doing it illustrates that 'opening up' the economy had a negative impact on the real economy and has leant itself to favouring domestic and international financial capital.

3.3. Securing Political Power: Black Economic Empowerment Strategy

> *For Mbeki and the centrist ANC leaders, establishing a black middle and business class is important as a bulwark against pressure from labour and the poverty-stricken masses for more expansionist policies. ... Threats by white corporations to move their investments offshore on the eve of the ANC coming to power unless the party applied economic policies that were acceptable to business, left deep scars on ANC leadership. They also made Mbeki more determined than ever to establish a black 'big business' class that would forever lay to rest the ghost of white capital flight and prevent future governments from being held to ransom.*[115]

Like most countries entering into democracy the new South African government implemented its own strategy for indigenising the ownership and management of the capital. South Africa first introduced an affirmative action programme during the first phase of attempting to democratise capitalism, later after finding that change was extremely slow it introduced its black economic empowerment strategy, which aimed to "quickly build sizeable middle, entrepreneurial and business classes among the black majority".[116] The aim of the strategy was to transform the patterns of ownership, redistribute wealth and give access to groups disadvantaged under the previous apartheid regime. BEE companies are given preference for government tenders and public-private partnerships.

An EmpowerDEX 2004 report on BEE at the JSE, found that blacks made up 14.7% of directors of listed companies whereas in 1992, it was a mere 1.2% of the top 100 JSE-listed companies had black directors. BEE companies are comparatively well represented in the finance sector. Recently the BEE commission recommended, "black people should hold at least 25% of the shares of companies listed on the JSE and at least 40% of non-executive and executive directors of companies listed on the JSE should be black."[117]

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[114] Epstein (2002:3)
[115] Gumede (2005:223)
[116] Gumede (2005:222).
[117] BEE commission report 2000

The most influential BEE directors[118] are those deployed by the ANC into the business world or connected to them. Unfortunately, "BEE has mainly been measured by how many blacks own shares in blue-chip companies on the JSE – or, as they have become known in South Africa, black-chip shares. Every time a black group acquires shares in previously white-owned companies, the establishment of joint ventures secures an equity stake in government-initiated business, such as casinos."[119]

BEE has been a key strategy of the ANC-led government to retain and secure political power and re-configure economic power post apartheid. And although it has not necessarily meet with the desires of ANC-led government with regards to securing more of the economic pie, the *nouvea noir* rich are firm supporters and backers of the Mbeki Empire and GEAR in particular. But BEE is fraught with contestation.[120] From the quarters outside the Mbeki–ANC-elite fold there is as much dissent about GEAR as there is with regards to BEE as the empowerment of only a few at the expense of the vast majority of black South Africans living in abject poverty.

But should we be surprised by the metamorphosis of the South African liberation leadership, now turned political elite? Probably not but what this metamorphosis signals is rather the dangerous play that the new elite are embarking on which leaves them more at the mercy of finance capital who requires the new elite to be able to embark on their business and become footloose in South Africa. The danger for the new elite is that acquiring wealth through the finance sector and not through productive profits leaves them pray to both major losses due to the unpredictability of the financial markets and a black-lash of resistance from below due to slow growth in the economy and declining investment resulting in deepening poverty, widening inequality and rising unemployment.

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[118] Cyril Ramaphosa - one of the richest men in SA - leads the list with market influence of R137-billion, former Gauteng Premier Tokyo Sexwale, with positions in Goldfields, Absa, Northam, Mvela and Trans Hex, ranks second as the most influential BEE director on the JSE. Ramaphosa and Molobi topped the list with six directorships each.
[119] Gumede (2005:222)
[120] Southall (2004:313).

4. Growth of the Finance Sector since 1994

> *Over the five years to 2002, the financial sector grew at a real rate of 7,7 percent, more than twice as fast as the economy as a whole. Financial sector employment grew by a fifth during the course of the 1990s. With an output of roughly 19 percent of GDP, the financial services sector is some 81 percent larger than the mining sector. In short, finance has been one of the most dynamic sectors of the South African economy during the past decade, accounting for almost a quarter of overall growth.*[121]

It is without a doubt that the last 10 years have seen rapid changes in the finance sector. During "the last decade of the twentieth century [when] the financial sector underwent considerable structural changes, affecting banking, insurance and the stock exchange."[122] Jones forwards that traditional institutions have transformed in function and ownership, the driving force behind these changes were market related and that technology the instrument that made it possible.[123] During the 1990s and, in particular, after the newly installed democratic government in 1994, the face of the financial sector underwent dramatic changes[124].

Since 1994 there has been sweeping reforms in favour of capital. There has been the dramatic reduction of corporate taxes from 48% in 1994 to 30% in 1999, the relaxation of capital controls, the consent to offshore listing, the expansion of the JSE and of late the demutualisation of the JSE andthe participation and registration of foreign banks and financial services.[125] Constitutionally the South African Reserve Bank's autonomy and independence is enshrined. It is a privately owned institution and has approximately 630 shareholders. Until 2002 it was listed on the JSE and only as recent as 1999 an ANC elected official was elected as governor.

By March 1995 the capital account was liberalised and the "dual exchange rate unified to remove restrictions on non-residents' transactions, and a series of steps began (and are still ongoing) towards the relaxation of restrictions on residents' foreign investment".[126] Given the changes already taking place in the early parts of the 1990s as outlined above, it is important to interrogate why the new South African government of 1994 would facilitate the strengthening and weight of the finance sector given the development backlog of the country. More

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121 Kganyago (2004:2)
122 Jones (2003:238)
123 Jones (2002:165)
124 In the late 1980s and early years of the 1990s the sector was gearing itself for change. According to Verhoef (1994:85-86) the De Kock Commission(1985) was proposing that monetary policy be conducted through market mechanism and that the state should exercise less direct control. The report pushed for the creation of a more competitive financial system, responsive to market forces giving scope for innovation and technical developments.
125 JSE press release
126 ibid pp. 378.

than reversing the trends eminent in the financial sector, the new political dispensation gave it its impetus.

The banking sector is highly concentrated and dominated by five groups namely Standard Bank, ABSA, FirstRand, Investec and Nedcor[127]. In 1994 the five banks held 83,8 percent of the total assets of the sector, today they control 87,4 percent. Small local banks have lost their assets from 21,7 percent in 1994 to only 3,1 percent in 2004. Upon opening the financial system after 1994, international participation grew by 6,5 percent. At the end of 2004 international participation stood at a total of 9,5 percent.[128]

Mboweni (2004), the governor of the South African reserve bank, stated that the changes in the balance sheets of banks comparatively between 1994 and 2004 are startling. Below is a tabulated summary of the changes that have occurred in relation to the aggregate balance sheet of all banks; loans and advances that have been made and an indication of domestic deposits from public. Table 3 shows that the aggregate balance sheets of all banks as a percentage of GDP has grown 45 points between 1994 and 2004. What the figures below reflect is that the banking sector is 10% larger than the gross domestic product of the entire economy.

Table 3: Balance sheet structure of all banks:[129]

Aggregate balance sheet of all banks as a percentage of GDP at market prices (SARB)

1994 end December	1999 end December	2004 end December
74.1%	90.3%	109%

Loans and advances as a percentage of GDP at market prices

1994 end December	2004 end October
56.1%	80.3%

Domestic deposits from public are still the main source of funding as a percentage of GDP at market prices

1994 end December	2004 end October
50.1%	68.6%

According to the Banking Survey Report of 2004 the largest source of funding is from unsecured deposits. The report also highlighted developments that illustrate the growth and changes in the banking sector. It noted that the money market funds almost doubled from R42.7 billion in December 2001 to R79.6 billion in December 2003.[130] The four major banks increased in both current and constant prices. This illustrates their increased influence over the economy. By selecting years 1990, 1995, and 2000, the table below depicts the aforementioned development.

[127] Mboweni (2004:1)
[128] Mboweni (2004:2)
[129] Mboweni. (2004:3), Calculations from SARB data.
[130] SABanking Survey (2004:16)

Table 4. Assets of the four leading banks[131]

Year	ABSA	Standard	FirstRand	Nedcor
1990	15 844	45 511	30 278	35 080
1995	105 326	100 441	77 270	67 997
2000	177 461	208 277	159 205	158 259
Growth rate 1990 – 2000 of the four leading banks (%)[132]				
Current prices	10,4	16,4	18,1	16,3
Constant prices	1,4	6,1	7,6	6,0

The financial sector continued to increase its weight in the economy despite the decline in real per capita GDP in South Africa, the growing risks operating in this global environment and the entrance and influence of foreign banks on the South African landscape[133]. "From accounting for 14,4 percent of GDP in 1990 it rose to 20,3 percent in 2000, an increase of 41 percent. In current prices the value rose from R34 192 billion to R160 954 billion, growing at the rate of 16,8 percent a year, while its weighting in total GDP[134] was growing at a rate of 3,5 percent a year."[135] The financial sector has far from shrunk during the last decade and has in fact grown compared to other sectors[136].

Capital markets turnover grew almost 23 times the level that it was 1990 to R536.877 million in 2000 (in constant prices it has risen almost nine-fold).[137] Additionally "market capitalisation more than trebled, rising from R495,1 billion in 1990 to R1 551.5 billion[138] in December 2000."[139] . Prior to the JSE 'big bang' of 1995, the JSE was one of the most illiquid exchanges in the world. This was due to sanctions, interlocking shareholdings, and the buy-and-hold strategy of institutions contributed to low liquidity.[140] It was only in 1996 that the domestic bond market migrated to electronic trading on the bond exchange of South Africa. Today the JSE is one of the tenth largest stock exchanges in the world and the largest on the African continent. In 1997, the government allowed delisting from the JSE and permitted listing on the London Stock Exchange[141]. In 2003 there were 472 companies listed, a market capitalisation of $182 billion and monthly trade value of $6,399 million.[142]

131 Jones (2003:251).
132 Jones (2003:251)
133 Jones (2003:246)
134 At market prices
135 Jones 2003, pp. 246.
136 See annexure: Table 5 – Sectoral output shares, 1995 prices (Gelb 2005 calculations from SARB 2004)
137 Jones (2002:190)
138 By 2000, market capitalisation represents 174.7 percent of GDP at market prices
139 Jones (2002:191)
140 Kganyago (2004:2)
141 This resulted in a large proportion of JSE top share listings and South African large corporations, including Anglo American, Billiton, Old Mutual and South African Breweries, to relocate their primary listing to London Stock Exchange.
142 JSE 2003 executive summary and 2003 SARB QB Review.

Portfolio investment as a percentage of GDP grew rapidly after 1994 accounting for 24 percent in 2004.[143] After 1997 secondary trading of stocks and bonds on the stock exchange grew rapidly as well. When comparing the industrial and financial share prices trading on the JSE we notice that since 1995 shares for the later has increased substantially and at the start of the first quarter of 1997 share prices for financials have outperformed industrial shares[144]. According to *The Economist,* South Africa's ranking in July 2004 amongst all 25 emerging markets showed that on currency strength, 1/25; lowest inflation, 3/25; GDP growth, 25/25; foreign reserves, 25/25; industrial production, 21/25; current account, 20/25.[145]

South African FDI abroad has increased over recent years. In 1980 from a low of almost 7 percent it increased to almost 17 percent by 1986. Since 1994 South African FDI abroad as a percentage of GDP increases and other than a fall to 15,4 percent in 2001 it rose to 20, 25, 21 percent in 1998, 1999 and 2002 respectively.[146]

Jones writes that "the expansion of the financial sector might be considered a dynamic force for a sluggish economy, on the other hand it could be seen as a response to the liberal monetary and credit policy of the authorities in Pretoria, that was a variance with the needs of a developing economy experiencing a massive relative decline in its secondary sector from 33,3 percent of GDP in 1990 to 24,4 percent in 2000."[147]

That the South African government has a keen interest to promote the development of the South African financial sector is clear. It is worthwhile however to note Gelb's cautionary remarks that "the positive financial impact must be counter-balanced by the conclusion that macro-economic policy, intentionally or not, privileged financial concerns over the problems in the real economy and portfolio over fixed investment."[148]

This section demonstrated that the finance sector has grown in size and proportion since 1994. This growth has not been accompanied by a striving industry or increasing direct investment in the South African economy.

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[143] Bond (2005:256). Based on calculations from WB time series 2004, we see that from 1998 there was a dramatic increase from 1,8 percent to 28,8 percent in 2002 *peaking* at 35.5 percent in 2000 (see annexure: Figure 4 – Portfolio investment as % of GDP, 1980 – 2002).
[144] Calculations done from the FTSE/JSE see annexure: Figure 5 – FTSE/JSE (Johannesburg Stock Exchange, 1995 – 2005)
[145] *Business Day*, 16 July 2004 '
[146] Based on calculations from WB time series 2004, see annexure: Figure 6 – SA direct investment abroad as % of GDP.
[147] Jones (2002:246)
[148] Gelb (2005:383)

5. Ascendancy of the Finance Sector

> *[C]onsider the core concession made by the ANC during the transition deal: fulfilling the desire by white businesses to escape economic decline born of a classical overaccumulation crisis. The deal represented, simply, this: black nationalists got the state, and white people and corporations got their capital out of the country. For those who remained, there were yet more privileges through economic liberalisation, ranging from a wider range of luxury imports to higher executive salaries to deregulatory opportunities across a variety of fields.*[149]

This chapter aims to put forth a threefold explanation for the ascendancy of finance by first arguing that a crisis of overaccumulation and decline of profitability in South Africa gives impetus to the growth of the finance sector. Second, it attempts to demonstrate the new black elite political motivation, relationship, close association and involvement in the finance sector. Third, the neoliberal shift from RDP to GEAR converged with neoliberal international interests[150]. To this end, the last section of the chapter attempts to demonstrate the close relationship between the new black elite and neoliberal International Financial Institutions.

5.1. Crisis of overaccumulation and a decline of profitability in South Africa

> *An economic 'crisis' surfaced during the 1970s and became acute during the late 1980s. Particularly in manufacturing, average profitability rates (earnings in relation to capital stock) fell steadily from 40 per cent during the 1950s to less than 15 per cent during the 1980s, and reinvestment dropped by 2 per cent each year during the 1980s. By the trough of the subsequent 1989-93 depression, net fixed capital investment was down to just 1 per cent of GDP, in comparison to 16 per cent annually during the 1970s.*[151]

Since the 1970s South African capitalism had been experiencing a structural crisis. "The roots of the crisis were to be found in the skewed structure of production, the most striking symptoms included steadily declining profit rates, a substantial decline in the economy's growth rate from late 1974, a drop in manufacturing employment from 1975 and a noticeable rise in the unemployment rate, and a substantial fall in private sector investment in plant and equipment from 1976."[152]

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[149] Bond (2005:261)
[150] According to Fine (2002:5) "it is uncontroversial that South African economic policy has been heavily influenced by, and converged upon the old consensus [Washington] as evidenced, for example, by the shift from the Freedom Charter to the RDP and from RDP to GEAR."
[151] Bond (2000:20 – 21)
[152] Bond (2000:24)

By the end of the 1970s, this crisis had not dissipated. In fact, in the 1980s we witnessed its intensification, and moreover exacerbated by the unfolding political crisis. Eventually, however, the white elite agreed to power sharing to 'facilitated a new round of capital accumulation.'[153] With this agreement came the end of apartheid and the impetus for the ascendancy of the finance sector.

Today the "the driving forces behind the South African GDP are ...decreasingly based in the real 'productive' activity, and increasingly in financial/speculative functions that are potentially unsustainable and even parasitical."[154] The contribution of industry to GDP has fallen from 48.21% in 1980 to 34.98% in 1994 to 31.14% in 2000[155]. Gross capital fixed investment by state, parastatals and the private sector was around 15-17% of GDP in the 90s, compared to 1960s (17-25% range), 1970s (25-30% range) and 1980s (18-25% range)[156].

This "lack [of] investment reflected chronic overaccumulation of capital and the persistently uncompetitive standing that South Africa as a stagnant, massively unequal site of production and consumption maintained in the world rankings[157]. As one reflection of overaccumulation, the rate at which manufacturing plant and equipment were utilised dropped systematically from the early 1980s gold-boom peak of 86% to the late 1990s when the trough was 70%, followed by a comparatively weak cyclical upturn from 1999 - 2002"[158]

The crisis of declining profits resulted in first, the financialisation, mushrooming of speculative financial flows, capital flight (as explained in chapter 2) and the overall growth and ascendancy in finance sector. The owners of productive capital realising that they could gain higher returns in financial assets began to seek refuge in the finance sector due to declining returns in the industrial sector.

Corporations, who no longer see the profitability in investing in South Africa and thus want to move out, begin to keep their savings in liquid and start engaging in portfolio investment. If businesses wanted to invest they could do so as "corporate savings have been sufficient to finance corporate investment: the corporate sector (the major contributor to domestic savings) has a financial surplus – an excess of savings over investment within the sector – between 1994 and 2000."[159] Furthermore the cash piles on South African corporate balance

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153 Bond (2005:253).
154 Bond (2005:,257 – 258)
155 See annex figure 1. By contrast financial intermediation rose from 16.4% of GDP in 1994 to 19.5% in 2002.
156 Bond (2005:258). Domestic investment has therefore only grown by 2% during the GEAR period. GEAR had predicted that it would grow by 7%. (see annex figure 6 for investment as a % of GDP since 1980)
157 According to Bond (2005:298) the 2003 World Economic Forum of competitiveness rating ranked South Africa 42nd overall (of 105 countries rated), and 27th (of 95 countries) for specifically 'business competitiveness'
158 Bond (2005:258).
159 Gelb (2005:389)

sheets as a percentage of GDP has more than doubled over the last 10 years from a mere 12% in 1994 to 30% in 2004.[160]

Second, the declining of profitability resulted in neoliberal macroeconomic policies that favour the finance sector by opening up the capital account, the implementation of rapid financial liberalisation, deregulation measures and the introduction of a variety of financial innovations so that corporations could expand globally and increase profits.[161] But this was not unique to South Africa as this strategy to overcome economic crisis "was the case globally, such neoliberal policies generated unprecedented financial profits."[162]

Third, with the financialisation of the economy and neoliberal policies that favoured the finance sector, there came the new black elites inclination to want to gain part of the financial profits pie. Today they have the role as both actor and director in the unfolding ascendancy of finance in South Africa. The new elite acts as a conduit for both national and international financial interests and directs their interests through BEE.

5.2. Elite Motivations: Association and Involvement in the Finance Sector

> *GEAR was not a momentary lapse but the outcome of a systematic ideological conversion achieved among powerful sections of the ANC and this must be understood within the political /ideological reconfigurations in the democratic movement.*[163]

> *Indeed, not only were free enterprise and property rights enshrined in every major economic policy statement and the Constitution itself, full-blown neoliberal compradorism became dominant (if not universal) phenomenon within the ANC policy-making elite.*[164]

The neoliberal macroeconomic direction chosen and staunchly adhered to by the ANC-led government is not only due to the domestic and international economic and political interests and pressures but also enthusiastically driven by black elite aspirations to translate political power into economic power.

As already outlined, a central aspect to the ever-increasing weight and strength of the financial sector is the rise of neoliberal policy and thinking within the ANC-government. This is in part a direct manifestation of the nature of the transition and economic reality that shaped the negotiations process. An additional element as already mentioned, is the broader international context, which shaped and influenced the direction of policy-making decisions. But this does not illuminate

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[160] See annexure: Figure 8 – Cash on SA corporate balance sheets as % of GDP
[161] From annexure figure 6 note that SA FDI increased rapidly from 1997 onwards reflecting the increase of SA corporations international operations and strategy.
[162] Bond (2000:27).
[163] Marais (1998:194).
[164] Bond (2000:16).

much about the new black class in power and in particular, why the bourgeoning black elite seems to favour policies that advance the interests of finance over industry.

It is in this sense that it is important to explore how the neoliberal thinking of the ANC-led government shapes and influences the political space in South Africa as part of the argument explaining why the finance sector is ascending in the post apartheid period. Today there is little development 'speak' with regards to disciplining finance in the interests of productive profits. Occasionally there seems to be finger pointing but nothing in the way of policy implementation. Most recently was the allegation by President Mbeki of the "unusually high levels of liquid capital held by South African companies, which is not invested in our economy."[165]

But irrespective of the supposed finger pointing the finance sector policy is clearly aligned even though it is portrayed as being neutral and in the interest of ensuring financial stability and focussed on coordinating asymmetric information. In this regard South Africa, for instance is hard at work to meet the guidelines[166] of the BASEL II Accord[167] of capital adequacy regulation, which are without a doubt financial market-driven policy regulations[168]. In line with the Bank for International Settlement (BIS) and its Committee on Banking Supervision (BCBS), the South African financial sector policy seeks not to reduce capital market liberalisation or competition but rather to ensure that safeguards are in place to ensure 'financial stability'. Hence issues of banking supervision and more recently the 'blackening'[169] of the sector, dominate the policy space rather than calling into question its role and function within a development context.

On the phenomenon of borrowing and the financial architecture in general, Strange (1998) reminds us that "giving money today, in exchange for getting money tomorrow – is economic. But how such transactions are managed is political."[170] What can we say with regards to the above in the context of South Africa? What are the imperatives, benefits and forces for the ANC-led government to facilitate the ever-increasing weight and strength (not to mention an extremely sophisticated financial system notably on par with industrial countries) within the South African Economy?

Multifaceted sets of processes have surfaced post 1994. That is, at one level the ANC-led government advanced neoliberal policies as a result of domestic capital's interests. Domestic capital desired to go global in order to avert the

[165] Mbeki 2004
[166] SARB Banking Supervision 2004; KPMG Banking Survey South Africa 2004
[167] In essence the Basel II is based on 3 basic pillars of Capital Adequacy, Supervision and Market Discipline.
[168] For critiques on BASEL II read Soederberg (2004), Strange (1998), Vander Stichele (2004), Claessens, Underhill and Zhang (2003); Cornford (2002); Griffith-Jones and Ocampo (2002).
[169] The Financial Sector Chatter now legislates BEE
[170] Strange (1998:99).

crisis of accumulation. The neoliberal policies served on the one hand, as an insurance policy for white capital's uncertainty about the direction the ANC would take in guaranteeing and protecting their class interests and assets and on the other presumably serve as the ANC's credit to engender domestic capital's confidence in the ruling party.[171]

At another level, the ANC-led government chose neoliberal policy in part due to the external pressures placed on it by international capital and its institutional agents. Furthermore this pressure was amplified by the dominant Washington Consensus policy direction that prevailed in the world at the time of the transition. It is for these reasons that GEAR is "[r]emarkably, indistinguishable for standard stabilisation and adjustment programmes, that would have been promoted by and approved by the WB and the IMF in the austere, human-faceless, lost decade of the 1980s, give or take a bit of commonplace sparring over details."[172]

But these choices left the ANC-government in a fix: how do they transform a black elite with political power into a black bourgeoisie? The ANC-led government by their own making had stripped themselves of the possible policy tools and incentives that were available only a few decades ago to the then Afrikaner-led government to facilitate a severing of the disjuncture between economic and political power.

With no direct and immediate potential control of the MEC, which "comprising the core quarter of the economy since the late nineteenth century, encompassing goal, coal, petrochemicals, electricity generation, processed metal products, mining machinery and some other, closely related manufactured outputs – remains South Africa's economic base"[173] given the settlement terms of a commitment not to nationalise, they were hamstrung.

Furthermore, GEAR promised to facilitate massive privatisation programmes of important parastatals[174] that were central to the profitable functioning of the MEC, thus closing the door to yet another avenue to both discipline finance and gain some control over the MEC. The inability to disciple finance would be vexing for the South African economy given that the MEC's "lack of industrial investment and diversification [post 1980s] has its counterpart in the over-bloated financial system and corporate capacity to transfer funds abroad whether through transfer pricing, false invoicing of trade and other methods."[175]

Commitments to 'open up' the economy left little room for protectionist policy or/and subsidies that could promote industrialisation. The new ANC-led government left themselves few options to ensure and promote and develop a strong industrial country, let alone develop a black bourgeoisie on the basis of an

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171 See Mohamed and Finnoff (2004:,11 – 14),
172 Fine (2002: 1).
173 Bond (2002:18).
174 ESKOM (electricity); Transnet (rail transport)
175 Fine and Rustomjee (1996:247).

industrial policy least of all on the back of the MEC which was a central and sure way to capital accumulation of the past.

The room to manoeuvre for the ANC-led government and its elite was slim by their own making. As a show of their commitment to redress the past apartheid ownership structure they embarked on a policy of BEE. However, on this score, the level of progress has been slow and, evidence suggests, only beneficial for a tiny handful of blacks. Furthermore, it has been argued that the recent hastening of BEE, is as a result of the ruling parties need to cushion itself from (resistance and dissent regarding GEAR and its lack of delivery in particular) its alliance partners.

Given that the financial sector does not evolve in and of it self and certainly not independently of the state this paper therefore postulates that the ANC-led government chose to promote and facilitate the growth of the finance sector over the industrial sector in a context of the already financialised white domestic capital. The driving imperative is to develop a black bourgeoisie that can clench economic wealth and aligns itself with the ANC-led government.

Meeting these aspirations of the few and the ruling parties desire to secure and strengthen its political power is undoubtedly the objective of the new ANC-led government. To this end the government has succeeded. According to Mda (2004), the government has "transferred equity from white hands to a few politically connected black hands. Its greatest success lies in creating overnight black millionaires from the ranks of politicians who were "deployed" to the private sector and a few trade union leaders."[176]

Only a decade after the first democracy the 'ultra-millionaires' club, "jumped from fewer than 150 white, old-money families and individuals to 690 in 2004. To join the club, one needs R200 million in cash or assets. Banking watchdogs VIP Forum estimates that by 2004 there were 25 000 dollar millionaires living in South Africa, holding at least $300 billion in private wealth. That is more is more than the GDP of the Southern African Development Community."[177]

The financial sector represents a 'viable' avenue for the bourgeoning black elite to generate capital overnight and offers the potential of gaining economic power within the self-imposed neoliberal straitjacket hence the ascendancy of the sector. The ANC-governments neoliberal policy choices jettison any potential of disciplining finance and pursing a development agenda by favouring an industrial policy. This dynamic ironically mutually reinforces and strengthens domestic white capital's economic grip as well as their possibility to jump ship.

To demonstrate the bourgeoning black elite's inclination towards the finance sector and thus there direct influence on governments pro-finance sector stance,

[176] *The Guardian*, Mda Saturday April 17, 2004
[177] Gumede (2005:215).

it is worth noting that since 1994 of the top 300 empowerment companies at least a third are prime shareholders of financial sector assets. Three of the top business men[178] hold prominent directorships in leading banks and other financial institutions as well as prominent positions within the ANC leadership and have longstanding relationships with the Minister of Finance and the Director General of the South African Reserve Bank. These same businessmen[179] played a key role in NEDLAC during the development of the BEE financial sector charter.

The 2004 Financial Sector Charter is part of the governments Black Economic Empowerment (BEE) strategy. It essentially aims to transform the ownership structure of the sector by 2014. Some of the targets are that by 2014 at least 25 percent of the sector must be owned by non-whites and a 35 – 40 percent increase in non-white management as well as an increase of women in management positions. Furthermore at least 50 percent of loans must be directed towards BEE companies for ventures in South Africa and beyond.

The Public Investment Commission (PIC)[180] has a substantial share in ABSA Bank and the Standard Bank Group Limited, the two largest banks in South Africa, as well as shares in the JSE. The Development Bank of Southern Africa (of which South Africa is the sole share holder) and its major partner PIC are active in facilitating the expansion of ABSA and Standard Bank into the region and Africa at large[181]. Two of the directors of PIC are the Minister of Finance and the Director General of the Reserve Bank. The recent talks and now eminent policy drafts to privatise PIC is yet another reflection of the ascendancy of the finance sector in the government circles.

To sum up, it is clear that in the new political dispensation, the new and burgeoning black elite gives impetus to the policies that favour the growth of the finance sector given the potential and immediate gains derived by engaging in financial rather than industrial activities. It is this enthusiasm to gain access to

[178] Cyril Ramaphosa (Johnic Holdings – among other things holds 50% shares in Fabcos Investments, 16% shares in Nedcor bank; also chair of the black economic empowerment commission); Tokyo Sexwale (chief exec of Batho Bonke which has 10% shares of ABSA, also Director of ABSA bank ltd) Peter Malungani (Director of Investec bank Limited, Director of Capital Alliance, Peu Investment Group (BEE); Patrice Motsepe (Director of Sanlam, ABSA, Chief Executive of Ubuntu-Botho Investment which has 10% in Sanlam)

[179] According to a *Sunday Times* (9 May 2004) share values that show black empowerment leaders Patrice Motsepe and Tokyo Sexwale to be worth R3.3-billion and R1.5-billion respectively, excluding other assets and holdings

[180] PIC controls more than R300 billion worth of state pension funds up from R30 billion in 1989, it has 21% shares in Oceana Group; 13 % shares in Standard bank and Telkom, which are all registered on the JSE. Historically PIC had to hold at least 75% of its assets in loans issued by the government. However with the Public Commission Amendment Act, No.7 1999, PIC today buys all of its stocks in the secondary market. PIC is in direct competition with other capital market institutions. PIC is the largest investment management operation in SA.

[181] For the purpose of this paper it is not necessary to delve into the South African governments sub-imperialist role in the region on behalf of capitals interests. But it is important to bear in mind that the South African government is actively positioning itself to be the financial hub of Africa.

economic wealth and power that act as the transmission for the ascendancy of the finance sector in the South African economy. This in part is a result of the ANC-led government closing its own options to develop a viable industrial strategy due to its neoliberal macroeconomic choices.

5.3. International Financial Institutions weave close ties with New Black Elite

> *The international political centers were more forthcoming, at least, allowing Mandela, Mbeki, Manuel and Erwin[182] insider access. This was self-interested, of course, as the institutions of global apartheid came under attack and attempted to reinvent themselves.*
>
> *Thus in their first seven years of democratic nation-state power and legitimacy, South African officials temporarily presided over the UN Security Council, the board of governors of the IMF and Bank, the United Nations Conference on Trade and Development, the Commonwealth, ... and many other important global and continental bodies.[183] ...*

The top brass of the ANC-led government have been in key positions in the IFIs and have in that capacity championed the neoliberal policies. It can be without a doubt that the new South African elite has close ties with the IFIs. But what does this tell us inregards to the ascendancy of finance in South Africa? Simply this: that the IFIs had a vested interest in the new South African elite and state to forward its neoliberal agenda in Africa in particular and the developing world in general. Additionally, it is to this end that the IFIs pursued an agenda during the transition and thereafter to ensure that the South African government was pro-neoliberalism. It is for this reason that Fine writes that "at the time of the transition, the neo-liberal Washington consensus was at its height, and a concerted attempt was made by both the World Bank and the IMF to ensure that the prospective ANC government would toe the free-market line."[184]

The neoliberal agenda of the IFIs embraced by the new ANC-led government as reflected in the GEAR macroeconomic policy facilitated and reinforced domestic finance capitals interests in regards to adopting more pro-finance policies so as to gain higher returns in the finance sector. The government's policies of inflation targeting, liberalised exchanges controls and the opening up the financial market

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[182] Mandela (first democratic president), Mbeki (his successor), Manuel (Minister of Finance - Manuel is a Governor on the Board of the World Bank, African Development Bank Group and Development Bank of Southern Africa; Chairman of the South African Development Community Finance and Investment Sector; Chairman of the Board of Governors of the International Monetary Fund at Annual meetings in Prague in September 2000; Served as Special Envoy to the Secretary-General, UN for the Conference on Financing for Development, held in Monterrey, Mexico from 18-20 March 2002; Chairperson of the Development Committee, International Monetary Fund (IMF) since April 2002. Erwin (Minister of Trade and Industry – President of UNCTAD 1996 - 2000)

[183] Bond (2005:282).

[184] Fine 2002, pp.1.

have not "generated employment and investment. Instead they have contributed to high interests rates and relative stagnation."[185]

South Africa's real interest rates (both short and long term) have increased and are high even at international standards. During the 1980 – 1989 period the rate were 0% compared to the 1990 – 2000 period of 5.7%. Furthermore between 1994 - 2000, in a sample including developing countries which included Mexico, Turkey, Chile, Brazil and South Korea, South Africa's real term differentials was higher than all the countries expect Brazil in 2000.[186]

Epstein (2002) argues that,

> *the main factors which have contributed to the high real interest rates, apart from international factors over which the South African authorities have no control, are: first, the inflation targeting framework adopted by the central bank, which has oriented monetary policy exclusively toward reducing inflation rather than toward supporting employment growth; second, the loosening of exchange controls which have made domestic interest rates conform much more closely to the demands of the international financial markets rather than to the needs of the domestic economy; and third, financial liberalization which has freed up interest rates and increased financial innovations which have increased the demands for consumer credit and more speculative uses, as well.*[187]

The close relationship with the IFIs and the adherence, implementation and promotion of the Washington Consensus has not yielded the desired results. This should not, however come as a surprise as "the success rate of the 'Washington Consensus' and 'neoliberal policies' is not at all high, especially when it comes to employment, poverty and productive investment."[188]

[185] Epstein (2002: 1)
[186] Epstein (2002:13 – 15)
[187] Epstein (2002:4)
[188] Epstein (2002:3)

6. Conclusion: Consequences and a Call for Further Research

This paper addressed four inter-related questions in its examination of the growth and the ascendancy of the finance sector in South Africa today. In so doing it first examined the extent of the growth of the finance sector. Second, it demonstrated that the ascendancy of the finance sector has been facilitated by domestic economic and political factors that are both historical and contemporary in nature. Third, it highlighted that South Africa's reintegration into the global economy has been marked and shaped by the influence of the international political economy of neoliberalism. Finally, it illustrated that domestic economic imperatives drive the impetus for the growth and ascendancy of the finance sector and that the political interests by the new black elite fostered by the ANC-led government's desire to retain and secure political power, reinforces the ascendancy of the finance sector alongside international economic and political interests. In its attempt to provide answers to some degree to these questions the explanations and analyses tried to demonstrate that an understanding of the political economy of the growth and ascendancy of the finance sector cannot be reduced to a single factor but rather a set of complex and dynamic economic and political processes and factors

In wrestling with why the new ANC-led government took such a blatant neoliberal pro-finance sector slant, the paper forwards that it is as a result of the structural and systemic problems of the economy as well as the balance of forces during the period of transition that was weighted in favour of capital. But key to the analysis of the ascendancy of finance in South Africa today, is locating the ANC-led government's own self-interest. That is, to develop and promote a new powerful black elite. Hence this paper argued that there is a convergence of old and new interests in South Africa resulting in the ascendancy of finance. This occurrence has not been met without consequences. Consider the following quote:

> *And what of Mandela's South Africa? Otherwise known as the Small Miracle, the Rainbow Nation of God? South Africans say that the only miracle they know of is how quickly the rainbow has been privatised, sectioned off and auctioned to the highest bidders. Within two years of taking office in 1994, the African National Congress genuflected with hardly a caveat to the Market God. In its rush to replace Argentina as neo-liberalism's poster boy, it has instituted a massive programme of privatisation and structural adjustment. The government's promise to re-distribute agricultural land to 26 million landless people has remained in the realm of dark humour. While 60 per cent of the population remains landless, almost all agricultural land is owned by 60,000 white farmers. Post-apartheid, the income of 40 per cent of the poorest black families has diminished by about 20 per cent. Two million have been evicted from their homes. Six hundred die of AIDS every day. Forty per cent of the population is unemployed and that number is rising sharply. The corporatisation of basic services has meant that millions have been disconnected from water and electricity.*[189]

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[189] Roy 2003

Furthermore, the consequences of the neoliberal, GEAR pro-finance macroeconomic policy, as already highlighted above by Roy (2003) are dire. Today the very poor accounting for 50% of the population receive only 3.3% of the share of distribution of income compared to the elite who account for 16.6% and take 72% of the income.[190] The growth, ascendancy and shift towards the finance sector have caused growth rates to remain low and unemployment high. This is an untenable situation. A stagnating economy with growth rates not nearly reaching the levels required to improve the lot of the vast majority of poor black South Africans is inexcusable given the generations that have fought against the apartheid regime for a more equitable South Africa.

The most glaring implication, however, of this argument set forth within its limitations and scope that it defined from the onset, is clearly the need for further research to begin to give flesh to understanding and examining in detail the ascendancy of finance and the emergence of a potential financial oligarchy in South Africa, its implications and consequences for both South Africa and the region at large. In this regard, it would be useful to begin to map the dynamics and implications between South Africa's domestic capitals global strategy to expand into the region as well as strengthening of the finance sector in South Africa specifically and the implications on the development process in South Africa more generally.

In addition, there is a need for a comparative political economy study to explore and analyse if the new South African leadership and its elite represents a unique case of seeking to secure political power by accessing economic power through the finance sector in the era of neoliberalism as well as the role of the state in this regard or might it be the trajectory of other new political elite such as in the case of the Lulu's Brazilian government?

Finally, this paper sought to contribute, in part, to tell what happened to that pot of gold at the end of the rainbow. It was not planted into the South African soil to be nurtured and tilled by South African hands. Instead it has been invested in the financial sector to the benefit of both old and new elite. One has to wonder if the growth and ascendancy of the finance sector in the post-apartheid South Africa, in the era of neoliberalism, represent a ***coup d'etat*** of CAPITAL in both South Africa and the world at large?

[190] Terrablanche (2002:36 – 37)

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Annexure

Figure 1 – Industry as % of GDP, 1980 - 2002 (WB 2004 time series)

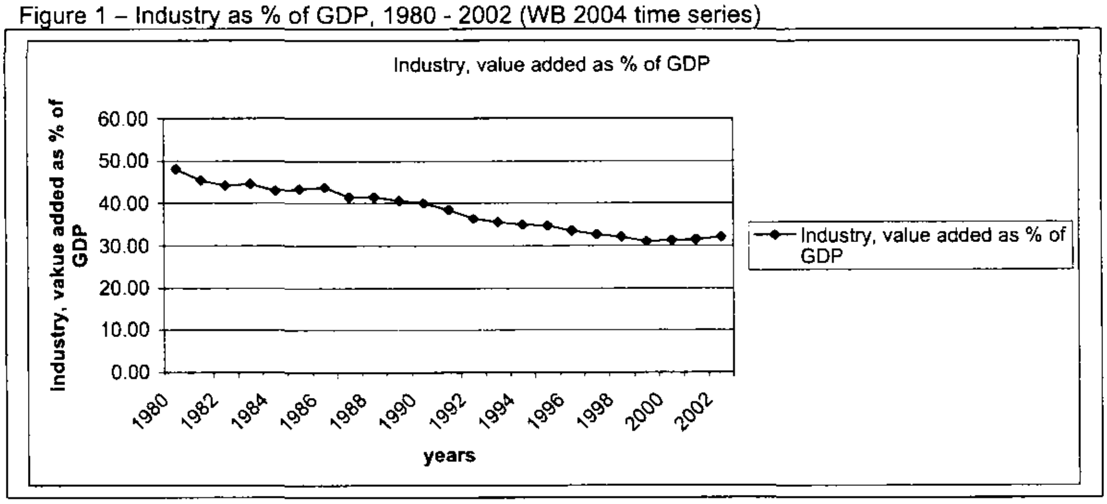

Figure 2 – National Savings as a share of GDP, 1982 – 2003 (Gelb 2005)

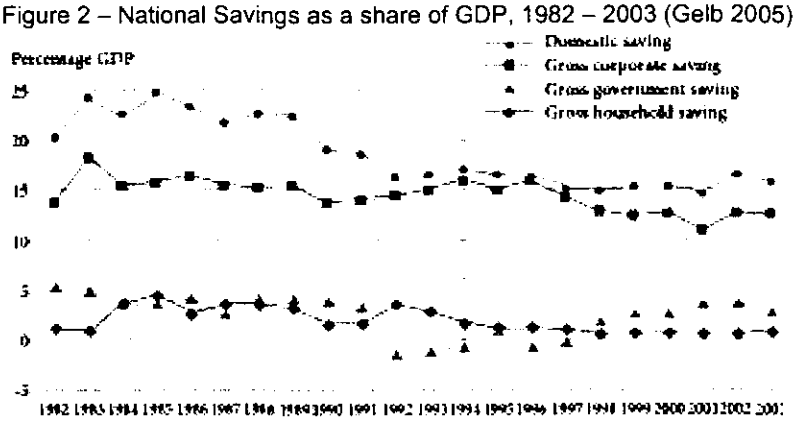

Figure 3 – Balance of payments, 1982 – 2003 (Gelb 2005)

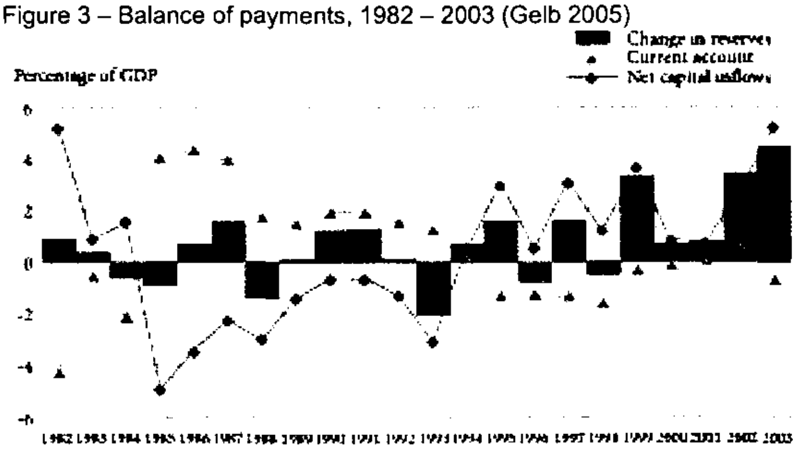

Figure 4 – Portfolio investment as % of GDP, 1980 - 2002 (WB 2004 time series)

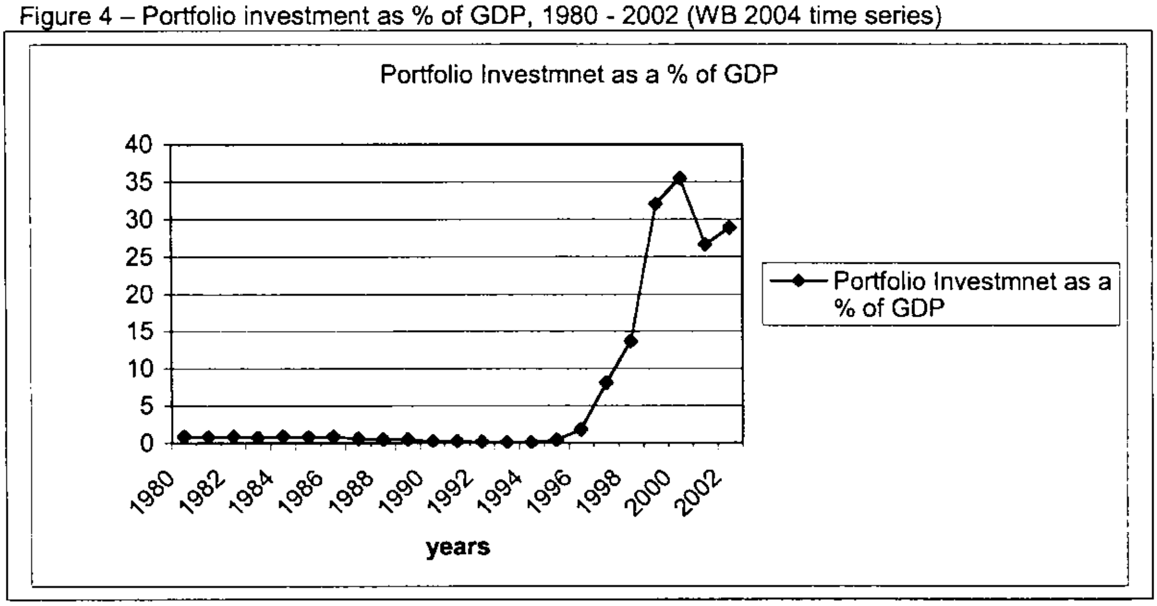

Figure 5 – FTSE/JSE (Johannesburg Stock Exchange, 1995 – 2005)
Blue – industrial Red - financial

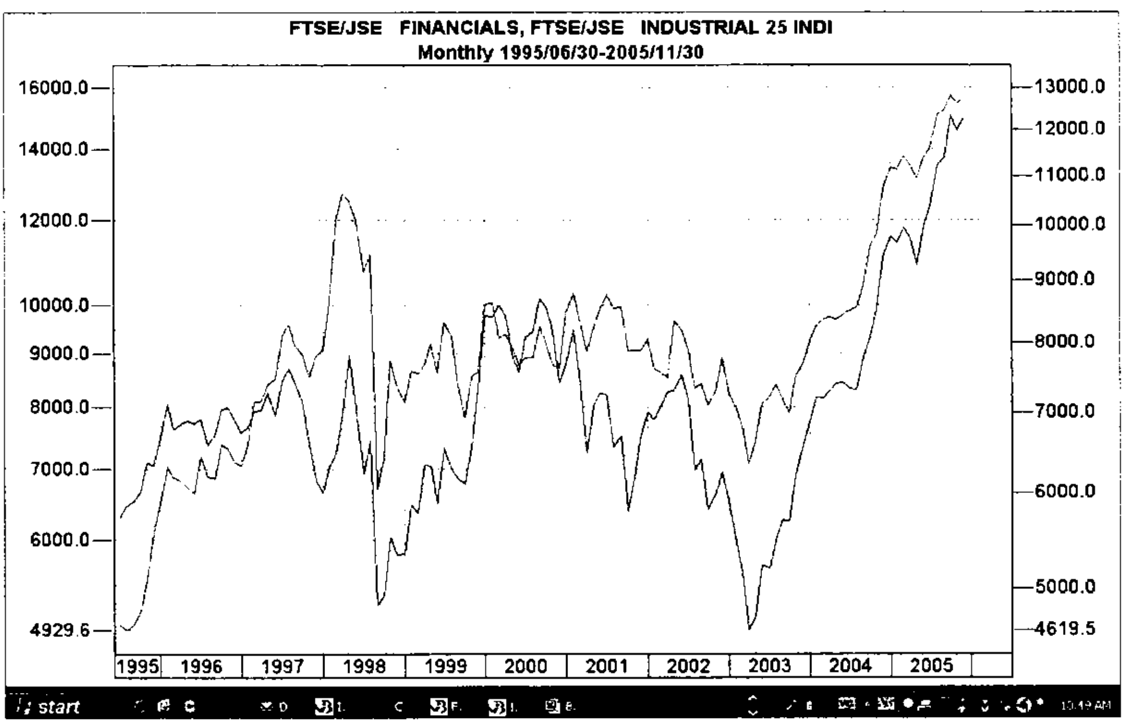

Figure 6 – SA direct investment abroad as % of GDP (WB 2004 time series)

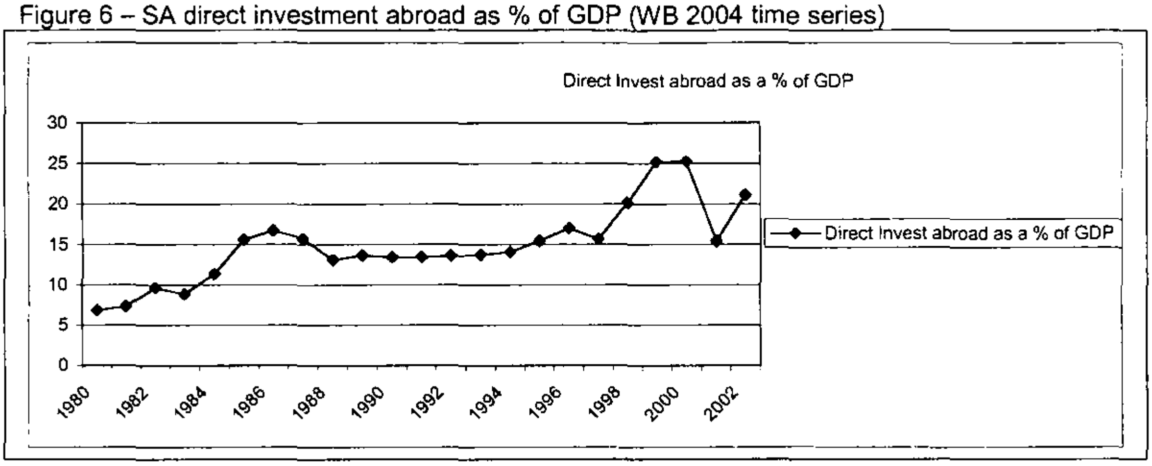

Figure 7 - Investment as a % of GDP, 1980 - 2004 (IFS time series 2004)

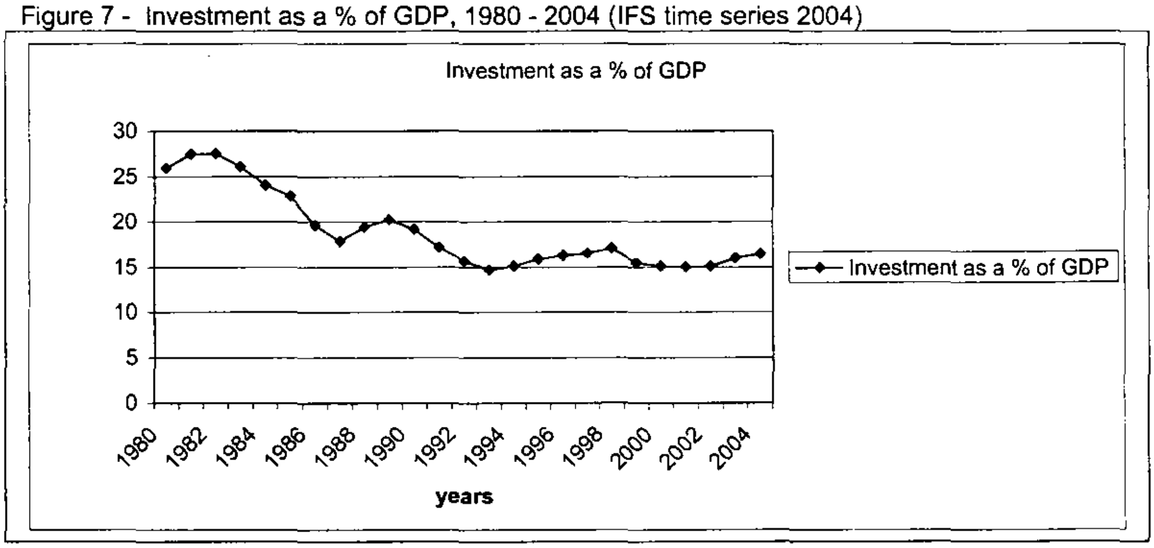

Table 5 – Sectoral output shares, 1995 prices (Gelb 2005 calculations from SARB 2004)

	Share of gross value added, %			Growth rate
	1990	1994	2003	1990 - 2003
Agriculture	5.0	5.0	4.0	0.3
Mining	7.3	7.4	5.5	-0.2
Manufacturing	22.0	20.5	19.8	1.2
Other Industry	6.9	6.7	6.7	1.7
Transport & communication	7.9	8.7	12.2	5.5
Financial services	15.6	16.3	19.6	3.8
Govt.& community services	16.0	16.5	13.7	1.0
Trade and other Services	19.4	19.3	19.3	1.7
Total	100.0	100.0	100.0	2.0

Figure 8 – Cash on SA corporate balance sheets as % of GDP (J.P. Morgan data from SARB)