The Minerals-Energy Complex is Dead: Long Live the MEC?*

1 Introducing the MEC

I have always been wary of telling South Africans about their own economy as my harshest criticism of other economists is for those - from the World Bank through to the latest Harvard group advising, or legitimising, Treasury – who impose preconceived and generally flawed ideas on the South African economy rather than starting from its economic realities. There is a need for dialogue between identifying such realities, and the judicious choice and development of appropriate theory to explain them, quite apart from the role this all plays in policy formulation and implementation. This motivation, methodology even, in large measure explains the adoption of the idea of the Minerals-Energy Complex, MEC, twenty years ago and which has informed scholarly and policy work subsequently, especially with Zavareh Rustomjee, and at least for the first ten years for the ANC's Department of Economic Policy, the MERG Report, and so on. For the last ten years, though, my involvement in South Africa has been minimal with the exception of preparing a paper for a poverty conference in 2007 on the developmental state, Fine (2007b).

So, it is with mixed feelings that I review developments in the South African economy over the past ten years and more, and assess the continuing relevance of the MEC for understanding the South African economy. But how did the MEC come about in the first place? To some extent, there was a large slice of luck involved. Having been asked by the ANC to assist in economic policymaking in the mid-1980s, I was something of an innocent as far as detailed knowledge of South Africa is concerned, with some positive political credentials (at least at that time), some expertise in political economy, some knowledge of the (UK) coal industry, and policymaking for the British National Union of Mineworkers and the Greater London Council, under "Red" Ken Livingstone, soon to be abolished by Mrs. Thatcher. I was, to be frank, initially unencumbered by central concerns with Colonialism of a Special Type, articulation of modes of production, National Democratic Revolution, and so on. But the first two things more or less that came my way in terms of reading were a Government Report on ESKOM, de Villiers (1984), and Duncan Innes' (1983) book on Anglo-American. From these, it was inescapable that there was an integral partnership between state and private capital, and an equally integral connection between a core set of activities around mining and energy, straddling the public/private divide.

But how was this specific form of capitalism to be understood, not least in light of its attachment to apartheid? First, I rejected the developmental state literature that was critically prominent at that time in explaining the East Asian NICs and in contesting neo-liberal interpretations of their success. This literature tended to separate out the economic from the political and treat them separately (what are the right <u>economic</u> policies in light of market imperfections as opposed to the <u>political</u> conditions that would allow these policies to be adopted, whatever they might be, as a result of some relative if not embedded autonomy). Rather, the issue is one of identifying economic and political interests and examining how they give rise to a particular <u>system</u> of capital accumulation, realised through the state and the market (as opposed to one versus the other).

Despite the parallel, especially in terminology, with the notion of military-industrial complex, popularised by JK Galbraith (1967) as characterising the US economy, this too was rejected as too rigid and unduly dependent upon an unholy alliance between military corporations and the state that would have to prevail over other interests, including those of other corporations. This is not to deny the presence of corresponding interests and processes – I did write a policy paper on the South African Military Industrial Complex, SAMIC, itself closely associated with the MEC – only that they have to be situated within a broader framework and, generally, weight of other structures, interests and processes.

Instead, as reported in Fine and Rustomjee (1997),[1] I came to the view, as mentioned, of the MEC as a system of accumulation, centred on core sectors that has a character and dynamic of its own that evolved and was far from pre-determined. Its history and consequences can be traced back to the emergence of mining in the 1870s through to the present day.

In the interwar and immediate post-war period, core MEC sectors drove the economy, furnishing a surplus for the protection and growth and, ultimately, incorporation of Afrikaner capital. State corporations in electricity, steel, transport and so on, represented an accommodation across the economic power of the mining conglomerates and the political power of the Afrikaners. The apartheid labour systems[2] were less an accommodation than a common bond.

But the divisions between Afrikaner and mining capitals precluded a more general strategy of industrial diversification out of core MEC sectors, leading to a partial vacuum in intermediate and capital goods capability, a failure to accrue economies of scale and scope other than in core MEC sectors, and an inefficient consumer goods industry surviving by protection upon demand. Agriculture tells a similar, although not identical, story. At the economic level, if temporarily accepting the notion, these characteristics offer the most obvious differences with the developmental states of the East Asian economies (although their own experiences, and the reasons for them, should not be unduly homogenised).

By the 1970s, though, Afrikaner and mining-related capital had been sufficiently integrated for a common economic strategy to be adopted, as had always been the case for labour systems. But, with the collapse of the post-war boom and the Bretton Woods system based on gold at $35 per ounce, and the sharp rise in oil and energy prices, a huge premium attached to both gold and energy. As a result, an industrial strategy for diversification was scarcely considered let alone adopted. Instead, the 1970s witnessed an extraordinary state-led expansion of gold and energy production.[3] Into the 1980s, the crisis of apartheid also precluded a state and/or private strategy for industrial promotion. But, whilst the core MEC industries remained central to the economy, capital controls meant that profits generated internally that were not illegally transferred abroad, see below, were confined to accumulation within the South African economy itself.[4] This gave rise both to conglomeration across the economy but, first and foremost, to the expansion of a huge and sophisticated financial system as cause and consequence of the internationally confined, but domestically spread, reach of the South African conglomerates with Anglo-American in the lead.

With the exception of a few dedicated devotees, the MEC has been ignored or at best dismissed both in terms of its impact upon the economy and as an organising concept for examining the economy. When not overlooked, it has tended to be misunderstood simply as a core set of sectors that is seen as being in decline or, possibly, not. But this is to fail to acknowledge the MEC as the South African system of accumulation and the form taken by capitalism in determining economic and social outcomes directly in major part, and indirectly through its central location within the economy and upon which so much else depends. Even where the MEC appears to be absent in direct or indirect influence, it tends to play a role in constraining the space that can be occupied by other activities.

2 From Globalisation, Neo-Liberalism, Financialisation and All That Jazz …

This provides the background for understanding the current and continuing significance of the MEC and its attachment to the transformed conditions associated with the post-apartheid economy. For, first, the conglomerates attached to the MEC had been frustrated in globalising their operations and have pressed for liberalisation of capital controls imposed in the wake of the debt freeze in 1985. They have otherwise demonstrated little or token commitment to the economic and social restructuring and expansion of the local economy other than in furnishing continuing and secure profitability to feed into their globalisation.

Second, the period since the collapse of the post-war boom in the 1970s has been marked by an unprecedented process of "financialisation" – expansion of existing financial markets, creation of new ones in and of themselves and through all sorts of derivatives, and the extension of finance to more and more areas of economic and social life. Financialisation has been heavily driven by neo-liberal policies of opening up markets in general through new forms of state intervention (not the withdrawal of the state) so that private capital can prosper within existing markets and in creating new ones. Finance, in particular, has been the leading beneficiary of such policies and is, of course, symbolic of the virtues of the free market in the abstract not least because it does itself abstract, as it were, from producing anything.

What the literature reveals from a variety of perspectives is that financialisation:[5]

1. Reduces overall levels of accumulation of real capital as financial instruments and activities expand at its expense.
2. Prioritises shareholder value, or financial worth, over other economic and social values.
3. Pushes policies towards conservatism and commercialisation in all respects.

Now financialisation in South Africa has been a key element in the restructuring of South African conglomerates over the past two decades, reflecting peculiar features. There has been the frustrated globalisation of the conglomerates whilst others were able to internationalise their operations freely. Paradoxically, this has intensified financialisation within the domestic economy to a degree that far exceeds what might otherwise have occurred. Such financialisation has made it relatively easy to accommodate incorporation of Black Economic Empowerment or, at least, BEE as minority enrichment, since this can be promoted through access to the financial system. And the imperative of financialisation of the domestic conglomerates has placed the negotiation of capital controls in a prominent role. This has played a major role in determining policy.

3 <u>… To Macroeconomic Policy</u>

There are two crucial aspects of South Africa's macroeconomic policy that I would emphasise. The first concerns the heavily debated relationship between such policy and neo-liberalism, raising such issues as to whether policy has been neo-liberal, was it imposed, did it have to be adopted, is it being abandoned now, and so on, see below. The second aspect is to emphasise what has been overlooked and this is the extent to which South African macroeconomic policy has been designed to <u>manage</u> the capacity of the South African conglomerates to disinvest from South Africa. This may not always have been a stated or even conscious goal (although it has on occasion been both).

But, if this has been a goal, and in part because conglomerate interests have prevailed over policy, why were controls not completely lifted immediately. Just to ask the question is sufficient to provide the answer. Conglomerate capital would have departed in a rush creating severe balance of payments problems, or a collapse in the value of the Rand. Such prospects can themselves then be offered (alongside control of inflation and other macroeconomic objectives) as what drives policy. But it is important to recognise that it would not have served the interests of the conglomerates to have faced a collapse in the Rand in particular. For this would have meant a heavy devaluation of the worth of the domestic assets, denominated in Rands, that they were so keen to send abroad. This would have been pointless if the divested assets became worthless.

So, the macro-economy has in large measure been managed to allow for such capital flight on favourable conditions to the conglomerates, and this has meant a gradual and piecemeal process. Of course, individual capitals are impatient with the result that macro-policy is always under pressure to be on the cusp of vulnerability. Allowing for capital flight of conglomerates has meant high interest rates to attract short-term capital inflows by way of compensation for the outflows but with the risk of these leaving in a rush to leave as well whether for good reason or as a result of herding behaviour and speculation against the Rand. In this light, the more macroeconomic policy has succeeded by whatever criteria, the more it is put under pressure for the reward for success has been to allow for pressure for more conglomerate capital to leave the country. To put this in provocative terms, the economic transition from apartheid might be dated from 1985 and be seen as the process of eliminating capital controls from then until the present day.[6]

There is, of course, evidence to support this interpretation although not as much as there should be because such matters have scarcely been investigated on these or other terms. But, indicative of the high level of pressure for disinvestment and how it has increased, Mohamed and Finnoff (2004, p. 2) estimate that <u>illegal</u> capital flight from South Africa rose as a percentage of GDP from 5.4% between 1980 to 1993 to 9.2% from 1994 to 2000. From the South African Reserve Bank, Wesso (2001) reckons from 1991 to 2000 that there was an overall net, foreign direct investment, FDI, capital outflow at R386m per quarter. This is not broken down into inflows and outflows and the impact of capital controls is set aside on the grounds that there is no reliable index for capital mobility so that there is no way to account for the impact of capital controls, p. 64. This is a bizarre neglect of responsibility – not to investigate the importance of something because it is difficult to index, especially in light of his own asserted judgement that volatility in net direct investment had been "mainly due to South African firms receiving exchange control approval to invest offshore", p. 68 (see also p. 75).

Chabane et al (2006) report on a different aspect of disinvestment by domestic conglomerates, providing evidence in support of the position adopted here. For, "Rather than London listings enabling conglomerates to raise capital to fund investments in South Africa, there has been a much more striking pattern of outward acquisition and investments … total stock of outward FDI has grown from $8.7billion in 1995 to $28.8billion in 2004", p. 559. Permission for listings, as pronounced by Trevor Manuel in his 2000 budget speech, has been dependent upon: foreign expansion being integral to the company, that it should be an international concern with high share of revenue outside of South Africa, that there should be monetary and balance of payments benefits, and an advantage (to whom?) in raising capital. It is not even clear whether all or some of these criteria need apply and, implementation in practice is discretionary, and secret in application and response by the Minister. There is reference to advantage and benefit to the company and to the balance of payments, although the connection between these and the broader contribution to the economy, and the disadvantaged within it, are diffuse to say the least!

Significantly, Chabane et al (2006) also report a peak of unbundling deals by domestic conglomerates in 1999, accounting for R80b, p. 555. This also coincided with a spate of mergers and acquisitions between South African and off-shore companies. It is surely not accidental that this followed the raising in the previous year of investment abroad limits to R50m per company outside SADC and R250m per company within SADC. Further raising of the limits and easing of controls have followed in subsequent years. But it does not take a corporate genius to work out that you get more out of the country if you break up a conglomerate into separate companies and benefit from multiple allowances!

More generally, the EIU (2007, p. 54) reports for South African financial services that, "The sector is one of the largest and most deregulated within the emerging markets, with sophisticated banking, bond and insurance markets accounting for around 20% of GDP and 1.3 million jobs in total …" But does it do its job. It would appear not. For, putting it unduly extremely, financial services take one quarter of what is produced by the rest of the economy in order to service itself (rather than, as it would normally be put, providing the financial services to support what is produced). From different perspectives, a sector such as financial services has often been seen to be unproductive. It does after all produce nothing other than acts of exchange between willing parties and, increasingly, acts of exchange that only involve, at most, paper products. Yet, in an economy and society in desperate need of transformation, it has grown at almost twice the rate of GDP over the last decade or so but offers no services directly at all to 40% of the population. And if, as orthodox economics would have us believe, its job is one of mobilising and allocating investment "… the ratio of savings to GDP remains sub-optimal, hovering at around 16%".

Yet, no one in the orthodoxy seems to be able to explain this without descending into appeal to ad hoc factors that are blown out of proportion. Thus, in a major report from the World Bank, Clarke et al (2007, p. 14) conclude that the "investment climate is mostly favourable – power is cheap and relatively reliable, the burden of regulation is not excessive, corruption is low, the ports function relatively well, access to finance does not seem to be a major problem for most enterprises, and most people trust the court system". So, in order to explain why private investment has been so modest in South Africa, other reasons have to be put forward such as exchange rate instability, cost of skilled labour, labour regulation, and cost of crime, and even that their study is too early and insufficient time has passed for the favourable factors to have worked through. Significantly, these factors are only hypothesised after the others have failed (and should have been incorporated into the original analysis rather than used to excuse its failings). Capital flight by financialised domestic corporations is, though, notable for its absence!

In a sense, the highly financialised South African economy absorbs a quarter of what is produced and, to add insult to injury, leaves less produced as a consequence, as well as dictating much of macroeconomic policy. To sustain the Rand, for example, reserves were depleted from \$4.3b at the end 1995 to \$2.2b by the end of 1996. Much the same occurred again in 1998, with the use of \$1.2b to protect the Rand. This all sheds light on the traditional defence given for South African macroeconomic policy. Trevor Manuel offered the following rationale before the inquiry into the collapse of Rand in December 2001, instigated by accusations that the collapse had been engineered by speculators to make money, and cited in Steyn (2004, p. 126), emphasis added:

> Some commentators have called for a "big bang" approach to exchange control relaxation. At the same time, however, most of the same commentators have recognised the complexities and pitfalls inherent in capital account liberalisation. Mindful of these complexities, government's stated commitment has always been clear and unequivocal – we are committed to a gradual process of exchange control liberalisation that takes into account critical <u>sequencing</u> considerations. A sustainable development path requires that certain <u>conditions</u> be in place before proceeding to full capital account convertibility.

This is extremely revealing for depending upon appeal to sequencing and preconditions before capital controls can be lifted. This is now accepted as appropriate, even by neo-liberal commentators after what has been the extent of financial instability created across the world economy by what is now perceived to have been too rapid a lifting of exchange and especially capital controls without preconditions in place. But, within Central Bank policy and the academic literature, these issues are primarily concerned with regulation, control and transparency of <u>short-term</u> capital movements. This is not what has been the South African problem but the long-term overhang of disinvestment attached to domestic conglomerates. Indeed, South Africa would pride itself on its degree of conformity to international financial standards, especially those necessary for allowing regulation of short-term capital movements.

In short, the problem is not one of preconditions and sequencing other than in handling the overhang of disinvestment by South African domestic conglomerates. As Steyn comments, “The debate about a ‘big bang’ rears its head every now and then. But Manuel prudently chose a gradualist approach, and reforms were timed to coincide with periods when the economy appeared able to withstand the change”. But what was the change that was necessary to withstand could not be clearer:

> There can be no doubt that the easing of exchange controls contributed to the rand’s slide during the period that Manuel has been finance minister. After years of isolation, the pent-up demand for foreign investment by institutional investors and companies was huge. The extent of this demand is illustrated by the fact that, from the introduction of the asset-swap mechanism in 1995 till its abolition in early 2002, institutional investors invested R100 billion abroad.

If, as is to be believed overall from the book in which Steyn contributes, Trevor Manuel is to be judged as a success in his macroeconomic policy, that success resides in managing the outflow of capital by the domestic conglomerates and, it should be added, presenting it as something else in terms of macroeconomic objectives.

4 Neo-Liberalism Changes Gear?

There is general agreement, Government denials to the contrary, that macroeconomic policy, especially with GEAR, has been neo-liberal. But there might be nagging doubts about this in light of the extent of social support, the limited extent of privatisation in practice, and the recent shift towards a more interventionist and even developmental-state stance. These reservations, however, reflect a misunderstanding about neo-liberalism in practice in two respects, acknowledgement of which places South Africa in the position of exemplary illustration of neo-liberalism in many respects.

First, there have always been tensions between neo-liberalism in scholarship, rhetoric and policy, and the relationship across them has differed by time, place and issue. In practice, neo-liberalism has also always been about discretionary, often extensive, intervention in support of the market or, more exactly, private capital. And, each and every neo-liberal programme has had its own limited deviations from some pure model that is not and cannot be found in practice.

Second, neo-liberalism is now entering, or has already entered, a second phase in which there are two responses to the first phase of what might be described as shock therapy – release the market (and private capital in general and finance in particular). The second phase has two elements. On the one hand is the attempt to temper the worst excesses, the consequences of the first phase, not least through the interventions to delimit the damage being wrought by financial turbulence, especially and as a priority to finance itself. On the other hand, and not necessarily so distinct, is for the state to intervene in order to promote the continued accumulation of capital and of financialisation in particular.

This is clearly visible in case of privatisation. Over the last few years, the World Bank has, for example, experienced a remarkable about face, even confessing to have been wrong about unqualified support for privatisation, Bayliss and Fine (eds)

(2008) for full details. In some respects, this has been forced upon it, following faltering privatisation programmes in practice, the failure to generate private investment where privatisation has occurred, and cancellation of, and protracted disputes around, privatisation contracts. This has all been especially so in Africa. Reminiscent of the need to sequence and put conditions in place in case of ease of capital controls, the World Bank now accepts that one privatisation model does not fit all.

Does this mean they accept that there should be a return to public sector provision, especially for economic and social infrastructure. Not at all. For, first, they have a pecking order for continuing privatisation with telecom in prime position, followed in order by energy, transport and water for which privatisation has experienced the most problems (and popular resistance in light of outcomes). Second, the World Bank wants the state to intervene and provide the preconditions so that privatisation can work. So, in conceding that the market does not work perfectly, they appeal to the state to put its energies and resources into making it work. Third, infrastructural support in donor aid is being massively shifted out of the public sector and into the private sector, not least with public-private partnerships to the fore.

Put in these terms, this should sound familiar in a South African context in terms of what has been privatised, what has not, and future prospects. Particularly worrying is the recent report on Escom from the World Bank, Kessides et al (2007). It basically says it has performed well but that it still makes sense to promote public-private initiatives where possible. This, then, is more a matter of dogged principle than the balance of evidence from practice.

5 <u>Institutional Capacity</u>

Whilst the World Bank report does note the falling margins of reserve capacity for electricity generation, it fails to anticipate the severity of the power cut problems that emerged almost as soon as the report itself had appeared. Nor does it seek to explain why the reserve should have been allowed to decline to such a low level. This leads to consideration of a different issue that has been heavily used to argue against state intervention in South Africa – the absence of appropriate capacity to deliver appropriate policies, especially industrial policy and, for economic and social infrastructure, especially at lower levels than central government. Dave Kaplan (2007, p. 91), for example, for a time Chief Economist at the Department of Trade and Industry, suggests that, “First, industrial policy should not, in the current context be too ambitious. Second, given limited governmental capacities, a more prominent role should be accorded to the business sector”.

Do these arguments apply in case of Escom? I would suggest not. It has had institutional capacity to deliver over a very long period, so much so that some might argue that the power outages, which have also resulted in stoppages in mining and MEC-activity more generally, are indicative of the inability of the conglomerates affected to have their interests met by the state. Certainly, Escom has had the ability to anticipate the decline in reserve capacity and the ability to rectify it (although there have been some unanticipated problems with existing capacity as well). But it has not done so for a number of reasons. First, there has been the failure to commit investment to new generating capacity. This might reflect a constraint imposed not to absorb high levels of resources for domestic investment at a time when liberalisation of capital controls was of high priority. Second, Escom has been caught in an institutional impasse whilst awaiting upon the privatisation issue to be resolved. Privatisation would have met political resistance, and there might also be doubts about the extent to which a privatisation deal with private foreign capital could be brokered alongside sufficient levels of inward foreign investment let alone funding from conglomerates within the country. And, third, there has also probably been a degree of incompetence and lack or failure of interdepartmental coordination – not as such but in deference to the leading role in this respect that is played by the Presidency and Finance.

This all points to the rather mundane observation that institutional capacity is heavily dependent upon political and other conditions and is not simply a technical resource that you do or do not have. This is worthy of exploration in a number of different directions. First, if, as is widely touted, there is a lack of institutional capacity, why is this so much reflected in the South African context by a failure to do things at all rather than in the outcome of having attempted to do them and having failed to do them other than badly. In short, there appears to be institutional capacity in abundance to prevent the rolling out of industrial policy, as well as much broader swathes of policy around economic and social infrastructure. If South Africa does not have the capacity to be a successful developmental state, why has it not become a failed developmental state?

Second, if institutional capacity is limited, what efforts are being made to rectify this? As French cement giant, Lafarge starts constructing 500,000 social housing units per year in South Africa, it also offers training to 115 youngsters from poor backgrounds, ARB (2007, p.17647).[7] German firms such as Daimler, Volkswagen and BMW are to put up $42.5m for training over two years in the construction, transport and service sectors. This is not unrelated to German firms having won contracts in building four soccer stadiums, to be funded out of the $5-6b allocated for the World Cup. The point is not so much to question whether this is money well spent or not but why similar training schemes are not home-grown and considerably more extensive. There is every reason to believe that skill shortages are exaggerated, that the capacity and effort to provide skills are being limited, and that the main problem underpinning this is the lack of availability of skilled jobs as opposed to the skills to fill those jobs that are available.[8]

Third, even accepting lack of capacity as a major constraint, where is the capacity located that does exist, and might it not be more usefully allocated elsewhere? There is, after all, capacity to bid for and host the World Cup. In government more generally, the institutional capacity does not seem to have been found wanting in the Ministry of Finance and the Reserve Bank as far as managing the outflow of South African conglomerate capital. And institutional capacity exists across the private financial sector to the tune of a fifth of GDP and large numbers of highly skilled workers.

And institutional capacity has very rapidly been forged and applied in Black Economic Empowerment. Rio Tinto Zinc, for example, is looking to exploit 1 billion tonnes of coal in Limpopo with BEE partner, Kwezi Mining, ARB (2008, p.17718). This reflects the more general sophisticated use of institutional capacity to negotiate the new minerals ownership bill in which BEE has been guaranteed a large share in state-owned leases of minerals but at not too greedy a level to scare of investors such as RTZ.[9] De Beers is to spend $56m in DRC for diamond exploration, ARB (2007, p. 17644). Capacity exists to set a new record in digging gold by doing so at a depth of 4 km below ground at Driefontein, ARB (2007, p. 17608).

Institutional capacity certainly prevails among conglomerates to globalise in Africa and the rest of the world, and to broker deals with the Chinese. Anglo-American, for example, has signed a deal with the state-owned China Development Bank (which has already bought a 9% stake in RTZ through Chinalco the state-owned and CDB-backed mining group). This is to provide for, to quote Cynthia Carroll, head of Anglo, "a productive relationship lasting many years", facilitating each to invest in one another's continents, ARB (2008, pp.17720/1). In addition, the Industrial and Commercial Bank of China Limited is to acquire a 20% stake in Standard Bank for R36.67b but SARB has limited any overall stake in future to 25%. Together, "they would establish a global resources fund to invest in mining, metals, and oil and gas in emerging markets … [and] marry Standard's expertise in resources financing with China's need for more commodities such as coal, oil and copper, much of it to be found on Standard Bank's home continent". It took 45 days to get regulatory approval for this acquisition, compared to nearly a year for the last big deal in finance in 2005 when Barclays UK took a majority stake in ABSA, ARB (2007, p. 17598), a great improvement in capacity in speed of delivery.

Institutional capacity exists in pushing forward plans for transport. Expansion of export capacity at the Richards Bay Coal Terminal, already the largest coal port in the world, is projected to increase by a third to 116 million tonnes per year by 2020, with coal mining companies sharing in proportion to their ownership in RBCT, ARB (2008, p. 17711) And R34b is to be invested by state-owned Spoornet in transport, including R24b for ports, over the next five years, ARB (2007, p. 17377). Indeed, transport and communication will receive an 18% per annum increase in government spending until 2011, ARB (2007, p. 17630) but, whilst over half of all roads will not be repaired, World Cup transport projects will be fully funded and completed on time, ARB (17601, p. 2007).

Whilst South African Breweries is renowned for its capacity to provide locally manufactured beer throughout eastern Europe and Africa, the same applies for Africa for mobile phones through South Africa's MTN mobile phone company. Without any obvious connection to meeting basic needs at home, South African media group Naspers has found the institutional capacity to buy the largest online auction trader in Poland for £946m, adding to holdings across Thailand, China, Russia and India, ARB (2008, p. 17683). Closer to home, the capacity has been found to provide R650m for the Maponya shopping mall in Soweto, reputedly the largest in the southern hemisphere, ARB (2007, p. 17577). Meanwhile, GDI Holdings first construction development outside South Africa is to be in Mauritius and valued at $350m, "The River Club offers 337 units and includes a championship golf course, an exclusive beach and hotel … Prices state at $670,000 per unit and go up to $1.7m", ARB (2007, p. 17648).

Despite the recent energy crisis, institutional capacity appears to be present within the Nuclear Energy Corporation of South Africa (NECSA). It is projecting a

R100b investment programme in 24 pebble-bed and 12 conventional nuclear reactors, with potential deals with Russia for power stations and uranium mining, ARB (2007, p. 17314). This would appear to be part of a R720b programme for nuclear power with deals to be negotiated with France or the US/Japanese company,Westinghouse, to serve as consortium, ARB (2008, p. 17689).

Last, and by no means least, in 2004, South Africa had the capacity to deliver R3,637 per capita expenditure to 40% of the white population in municipalities but only R146 for the poorest 20% of the black population (a gap of 25 times), Makgetla (2007, pp. 150/1). Institutional capacity in providing health services in the private sector, serving a fixed number of people, and so declining to 16% of the population, has risen from 4.5 times to 7.1 times the level of expenditure in the public sector between 1997/98 and 2002/3, taking 59% of health expenditure overall, Schneider et al (2007, p. 296).

This is all indicative of the continuing availability but uneven application of institutional capacity. In this respect, it is worth mentioning that corruption and crime generally gets a bad press not least in South Africa but, it is sometimes half-jokingly, remarked that at least it gets things done (illegal capital flight, for example, and rogue speculative trading on currencies or shares were probably not in mind). It would be wonderful if the headlines in the South African press were, “60% of doctors on compulsory exclusive public health contracts found to be seeing patients privately and using public health facilities to do so”; or, in my dream world, “bribes taken in major public house-building programme for cheap rental”. It is important to ask what are the underlying policies and dynamics on which corruption rests and draws.

6 Future Prospects

In brief, the twenty or so years from the debt freeze of 1985 have marked the passage to liberalisation of capital controls and have allowed for the globalisation and financialisation of South African conglomerates. This is not to say that the core MEC sectors have been idle in the meantime, and without state support. The state-owned Industrial Development Corporation, IDC, was the major domestic investor in the period, often creating jobs at a cost of between R5m and R8m in capital per worker, hardly conducive to employment creation.

Over the last few years, though, there have been signs of shifts in policy from GEAR to AsgiSA, and from neo-liberalism to a developmental state.[10] No doubt this reflects at least in part a response to the profound dissatisfaction with the ANC government. But, symbolised by the admittedly selective evidence presented above on institutional capacity and how it is to be used, there are indications of a resumption of a state-led strategy around core MEC sectors to provide secure domestically-based surplus for ongoing internationalised financialisation, but with continuing disregard for broader economic and social development other than as a fortunate spin-off or unfortunate constraint. In short, there is the prospect of a renewal of the state-led expansion of the 1970s, with financialisation and BEE as two new features.

How are we to respond other than to suggest “a more prominent role should be accorded to the business sector”, the consequences of which are plain enough. Much can be derived by drawing upon the following quote of Sir Josiah Stamp, reputedly the second richest man in the UK in the 1930s, a manager for Nobel industries, head of the British chemical company, ICI, a member of the board of the Bank of England, and even head of the British income revenue service:[11]

> Banking was conceived in iniquity and was born in sin. The bankers own the earth. Take it away from them, but leave them the power to create money, and with the flick of the pen they will create enough deposits to buy it back again. However, take it away from them, and all the great fortunes like mine will disappear and they ought to disappear, for this would be a happier and better world to live in. But, if you wish to remain the slaves of bankers and pay the cost of your own slavery, let them continue to create money.

This is a wonderful exposé of the power of money. But it is limited in focusing exclusively on distributional issues – who gets what rather than how much there is to get – and without specifying the mechanisms by which this is done other than through the flick of a pen. Indeed, as suggested here, financialisation not only draws upon ever greater rewards, it does so by reducing those that are available to others.

The general conclusion that I draw from this, for South Africa as elsewhere, is that policy has to be insulated as far as possible from the flick of the pen of financialisation as opposed to being embroiled and integrated within it. It may be claimed that this is impossible, and finance will turn on its destructive powers if not appropriately served. There are plenty of examples to indicate otherwise, although there cannot be any guarantees of success for policies that are more progressive than the default of leaving it to the market even if supported by the state. To return to an earlier theme, though, institutional capacity has to be developed to deliver alternative policies, in major part a political issue, and one that depends upon the strength and forms of working class and popular action to secure and sustain programmes. And, almost certainly, to extend them. For, I suspect, the failure to deliver more progressive policies in South Africa, and to build "institutional capacity" as both cause and effect, reflects a wish not to provide the basis for more progressive and potentially oppositional movements. Be mindful that every act of state provision potentially creates a constituency for continuing and enhanced provision.

Finally, ten years ago, Desai and Bohmke (1997) bemoaned the "retreat of the intellectuals" in South Africa, pointing to the abandonment of principle in pursuit of privilege and enrichment, rationalised by a brush of appeal to realism and underpinned by loyalty to the ANC. The great scholarly traditions around race and class that were built up under apartheid are in danger of being lost. Desai and Bohmke explain this in part by suggesting that the earlier literature had neglected the role of labour, and resistance, by unduly focusing upon what capital did.

No doubt the same could be said of this contribution. But, if anything, the focus on labour, and the poor, over the last decade has swung to the opposite extreme with large numbers of studies of variable, but plenty of excellent, quality. Is it possible that such studies may be subject to diminishing returns as we hone the meaning, measurement, causes and incidence of poverty? In the policy arena, as Katz (2004, p. 763) puts it in response to the Sachs Report, "Primary health care is, of course, one of the public services required to provide the conditions for good population health". Yet, "We have 100 years of solid public health experience demonstrating that access to decent food, clean water, adequate sanitation, and shelter are the major determinants of health", p. 756. And what is true of health is surely true of other basic needs. We need to get on with it.

On the other hand, with the demise of apartheid, there has been a relative neglect of what it is that capital is doing and why. Exercising my own prejudices, this is why I hope the MEC can be taken seriously by more than a handful of intellectuals with commitment to greater realism as opposed to fashionable and/or acceptable concepts in vogue. But this is more than an academic issue. The last ten years have been remarkable for the extent to which a relatively small number of well-placed individuals have been projected to prominence as Ministers, Director-Generals and/or corporate enrichment. This has been true of my own students, with no precedent from other countries.

But this cannot recur. It is a one-off because the numbers now involved are too large and the elite positions are already filled. BEE only provides so much potential for trickle-down. This means there remains a battle for the hearts and minds of the next generation of intellectuals and activists, with the outcome open and depending upon the determination and integrity with which debate and action are engaged. The goal must be to engage working class and popular movements in a dogged commitment to contest, and overthrow, what has become a cheque book, if not internet, capitalism.

Footnotes

*Paper presented to Amandla Colloquium, "Continuity and Discontinuity of Capitalism in the Post-Apartheid South Africa, 4-6 April, Cape Town.

[1] Selected work on the MEC is listed in an Appendix. These were preceded by a number of papers for EROSA, Economic Research on South Africa, set up for the ANC.

[2] Many false starts in examining South African labour markets, and more generally, flow from beginning with a single labour market albeit one that is presumed to be distorted from some ideal and often giving rise to structural or other dualisms or the like which are both theoretically unsatisfactory and empirically wanting. See Fine (1998).

[3] For Bell and Madula (2002, p. 127), if unduly deterministic by physical endowments, "Owing largely to its natural resources abundance, South Africa's transition to an export-orientated industrialization was considerably delayed – indeed to the mid-1980s – by nearly 30 years, compared to natural resource-poor South Korea, for instance".

[4] For Jones (2002, p. 179), in the 1970s, "continued exchange controls locked capital within South Africa, further encouraging the skewed distribution of share ownership".

[5] For my own account, see Fine (2007a).

[6] It can also be observed that the broader imperatives underpinning this transition are not unrelated to the worsening production conditions attached to gold mining, Nattrass (1995). In other words, the MEC had to change irrespective of political pressures (which might have been more readily contained with a mixture of reform and oppression had gold provided a larger surplus for the purpose).

[7] Unless otherwise indicated, information in what follows is provided from the Africa Research Bulletin, ARB. The examples given are only illustrative, not necessarily the most important, and not necessarily up to date.
[8] Bell and Madula (2002, p. 120) suggest, "The problems of manufacturing, in short, rather than lying in skills shortages, may lie more deepseatedly within South African manufacturing itself".
[9] See Hamman et al (2008). There is a remarkable parallel between managing the Rand for conglomerate disinvestment from SA and managing BEE without damaging corporate worth "When a draft of this charter [for mineral leasing] … was leaked in July 2002, requiring that 51 per cent of the industry be controlled by black-owned companies within ten years, the markets reacted with a drastic sell-off of shares … the gold industries index shedding almost 12 per cent", p. 29. As a result, a compromise was reached "on the industry's BEE equity targets (26 per cent ownership or control within 10 years) and a commitment by industry to facilitate R100 billion to this effect", p. 30. This is, of course, a far cry from the Freedom Charter.
[10] For critique of macro-policy as signalling a turn towards a developmental state, see Jacobs (2007).
[11] See http://en.wikipedia.org/wiki/Josiah_Stamp,_1st_Baron_Stamp

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Appendix

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