Political Economy for the Rainbow Nation: Dividing the Spectrum?[1]

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Juliet:
O Romeo, Romeo, wherefore art thou Romeo?
Deny thy father and refuse thy name;
Or if thou wilt not, be but sworn my love
And I'll no longer be a Capulet.

Romeo:
[Aside] Shall I hear more, or shall I speak at this?

Juliet:
'Tis but thy name that is my enemy:
Thou art thyself, though not a Montague.
What's Montague? It is nor hand nor foot,
Nor arm nor face, nor any other part
Belonging to a man. O be some other name!
What's in a name? That which we call a rose
By any other word would smell as sweet;
So Romeo would, were he not Romeo call'd,
Retain that dear perfection which he owes
Without that title. Romeo, doff thy name,
and for thy name, which is no part of thee,
Take all myself.

Romeo and Juliet, Act 2, Scene 2, 33–49

1 Introduction

I must apologise for hauling you back to schooldays by such a long and familiar quotation from Shakespeare. My excuse for doing so is because of the dazzling light that breaks from Romeo and Juliet upon our conference themes of citizenship, borders and identity. Juliet is clearly struggling with how to reconcile the material with the discursive world, both wishing them to be cast asunder whilst recognising that they cannot be - whereas Romeo, at least, for the moment, is content to confine himself to introspective deconstruction. But I leave you to impose your own interpretations and, no doubt, the outcomes would be as diverse as the academic literature on our conference topics. I cannot hope to match the rich potential of such an exercise. Instead, in truly moving from the sublime to the ridiculous, I offer a mundane vignette or two from my own experience in serving upon the South African Presidential Labour Market Commission that sat between 1995 and 1996, LMC (1996). As an international advisor, I was present at most discussions and at questioning of witnesses, and was even allowed to interrogate them myself.[2]

The issue of migrant workers from the southern African region came up as a topic for discussion amongst the Commissioners, not least for its impact on employment and unemployment. To my astonishment, an ideology of the meaning of nationhood rapidly came to the fore, with jobs for South Africans as a first call not only upon the nation-state but as a way of consolidating it as such. In an instant, before my eyes, anti-apartheid solidarity and the history of (migrant) labour evaporated as Commissioners warmed to their topic. In a jaw-dropping moment, the discussion turned to the efficacy of different technologies for policing porous national borders, reluctantly accepting that they might prove to be both ineffective and/or unacceptable. I should observe that these were not township or urban dwellers engaged in xenophobic violence but carefully chosen representatives from the new, and not so new, elite across public and private life.[3]

At this time, we examined Bobby Godsell as a representative of the Chamber of Mines.[4] Intriguingly, he took a genuinely liberal view of labour markets in the region, arguing for free mobility across national borders, at least to the mines. This was a period, although not so long ago, when labour on the mines was more extensive in numbers and geographical origin than now, with wages and working conditions less attractive both in absolute and relative terms. When I raised the issue of strategies for, and management of, international recruitment and remittances, I was assured that administration for these within the region had been reformed and now served the interests of the employees themselves. I then requested that the Minutes of the Chamber of Mines deciding on these matters be deposited with the Commission. At this point, my jaw dropped to its lowest point as, in refusing, Godsell's liberal persona transmogrified into a mind-blowing rant about no longer living in the Marxist past and obsessions with conflicts long since settled.[5]

Unfortunately, the Commissioners did not decide to insist upon receiving the evidence that I had requested upon their behalf (possibly reflecting a lack of experience of their powers) and even seemed apologetic for the offence that *I, myself*, had caused. But the lessons I wish to draw concerns the extraordinary speed and extent to which citizenship, borders and identity can be redrawn, exhibiting equally remarkable degrees of continuity and change across both material and ideological elements. Of course, this should not come as a surprise to those versed in the theoretical and/or empirical investigation of these topics.

I suspect I was somewhat more innocent in this respect at the time. But I am immodest enough to suspect that the reason I am here is not to reflect upon my naiveté on these topics but because of my work on the South African economy which will be known to many of you, and to which I return below. But I am also equally modest enough to suspect that many of you will be unaware of my work on identity (if hardly citizenship and borders, lest the latter be concerned with landed property as opposed to national frontiers although the two are not entirely orthogonal). On identity, my work falls into two parts. The more recent, Fine (2009a), offers a critique of the treatment of identity within mainstream economics, not least by Akerlof and Kranton (2000),[6] in which identity is treated as a matter of choice within an individual utility function albeit with attached externalities and social outcomes/equilibria in terms of size of groups with different identities and mutual dispositions to one another. In other words, identity is simply market imperfections handled by other means, an ideal example of what I have termed “economics imperialism” in its more rounded version. Significantly, Akerlof, a Nobel Prize Winner for Economics, is perceived as incorporating sociological insights into economics, and his work on identity does range over references as diverse as Homi Babha and Michael Burawoy. But the treatment of their work would, I suspect, be unrecognisable to them given the method, concepts and theory deployed.

I mention this critique of identity, an example of the much more wide-ranging and contemporary assault on the social sciences by “economics imperialism” in order to highlight the rational choice milieu in which I am situated but which, I suspect and hope, most of you as (critical) sociologists do not need to engage let alone escape.[7] My more substantive contribution on identity derives from the study of consumption and the consumer with which there is no reason why a South African audience should be familiar. Coincidentally, this work originates about the same time that I was serving on the Labour Market Commission, Fine and Leopold (1993), through Fine et al (1996) and Fine (1998) to Fine (2002). I am extremely hesitant, quite apart from a fear of teaching grannies how to suck eggs, in extrapolating from its general results for the consumer to the more general and distinct subject matter of citizenship, borders and, my focus here, identity. But nothing ventured, nothing gained.

I begin in the next section by summarising my conclusions for the nature of (consumer) identity (or culture) as being characterised by the 8 Cs, as constructed, construed, contextual, constradictory, chaotic, closed, collective and contested. This is followed by an account of neo-liberalism suggesting that it is legitimate and imperative as a category of analysis if necessarily to be understood as being based upon the current era’s dependence upon financialisation, itself having gone through two phases, each of which inconsistently draws upon shifting and diverse combinations of scholarship, rhetoric, policy in practice, and representations of reality. Section 4 provides some account of the notion of South Africa as having been dominated by a system of accumulation organised around the Minerals-Energy Complex, MEC. It suggests that the post-apartheid economy, not for the first time, has seen a shift in the mode of operation of the MEC, not least with significant impetus towards providing for orderly financialisation and globalisation of conglomerate assets, that is export of capital. The final section tentatively extrapolates from the contradictions of consumer politics to suggest that, whilst finance is an increasingly identifiable target for mobilising for progressive alternatives, the prospects for success in this regard require both going beyond the travails of finance itself and forging unity, not homogeneity, across fragmented struggles and the identities to which they are attached.

2 Identifying Identity

My approach views the material and cultural as inextricably intertwined and systemically based on structures, relations, processes and agencies that are reproduced or transformed in attachment to one another. In case of (commodity) consumption, this gives rise to particular systems of provision – the food system, the housing system and so on – which self-defining and attached to corresponding cultural systems with which (consumer) identities are formed, acted upon and transformed. These cultural systems are themselves subject to what I term the 8Cs.[8]

First identity is Constructed by which is meant not merely in thought or disposition as much as out of the material practices engaged and, thereby, offering themselves as potential elements to be incorporated, or not. What it is to be South African looks very different before and after apartheid, for Labour Market Commissioners dealing with unemployment as opposed to representatives of the Chamber of Mines dealing with employment.

Second, identity is Construed since its construction is not reducible to the material practices nor do these determine more than the context that is worked upon in thought and dissemination, constraining and/or inducing how identity is conceived. Accordingly, identity is not simply constructed and received but reflected and acted upon and transformed. In this respect, identity is remarkably fluid especially in response to changed circumstances or in one context as opposed to another. Solidarity with the region as an aspect of liberation gives way to nation-building, whilst it is more or less impossible to find anybody these days who supported apartheid, Mrs. Thatcher, Mao, or financial deregulation.

Third, identity is Contextual, not simply in the limited sense of the way in which varieties of different universal elements are or are not present but that meanings themselves are both variable and created not chosen by circumstance. This is similar to, if not reducible to, the invention of the nation, tradition, and identity itself both in conformity to, and in violation with, past and present practices and beliefs.

Fourth, identity is Contradictory not simply in the sense of the multiplicity of competing claims made upon it (see next C) but also in the material practices that underpin them. National identities, in particular, require universal principles applied in practice on a restrictive basis, no more so than in rights to cross borders, and access to employment and other rights. More generally, we know only too well that, even where they exist, formal freedom and equality before the market, the state and civil society are underpinned by contradictory practices that inform the construction and construal of identities across race, class, gender and so on.

Fifth, hardly surprisingly then, identity is Chaotic because of the inevitability of the multiplicity of identities attached to the multiplicity of practices in which we engage at both individual and social levels. We switch between identities, and beliefs and actions across them, even as they are formed and transformed. Indeed, it is precisely the capacity and inclination to subjugate multiple to single identities that is conducive to exclusion and intolerance.

Sixth, identity is also Closed in the sense not only of who does or does not belong but in how it is defined, by whom, and out of which practices. This is, of course, the rationale underpinning the demand for grassroots activism (as well as elite rule at the other extreme). But this is itself no guarantee of an approved inclusion as opposed to a shifting if select constituency.

Seventh, identity is Contested (Conflictual) not only in who is or is not included but, even given this, in (re)defining content and meaning in correspondence with material practices. Identity is both discovered and created in the domain of conflict as much as that of unexamined everyday life, revealing and creating powers, governances solidarities and hidden meanings.

Last, identity is Collective, not a Romeo or a Juliet, an (individual) arm or leg, but Montagues and Capulets, forged out of common bonds and conflicts, enduring or otherwise. Yet, whilst the understanding of identity depends upon the use of simple categories such capital and labour (and other partitions, dual or otherwise), the relationship between categories, such as class, gender and race, and identity cannot be rigidly determined, not least because of the other Cs.

3 Is Neo-Liberalism Dead (Was It Ever Alive) – Long Live Neo-Liberalism?

I am acutely aware that the force of my proposed 8 Cs is liable to be pushing against an open door as far as sociologists are concerned (as opposed to the economics of identity that I have in part taken as my point of departure), especially in emphasising the diversity and complexity of identity. The great difficulty, though, is in how to negotiate the passages between the general issues and determinants and the more concrete and specific, or the contextually home-grown as it were. This is most apposite for a discussion of the crisis of neo-liberalism which is both material and ideological. At the time of writing, the ideology of free markets has given way to successful demands for extensive state intervention, even if especially to sustain the financial system that is on the verge of, or even beyond, collapse and is, in any case, prompting a major recession whose depth, breadth and duration remain uncertain. Does such overt renewal of state intervention signal the end of neo-liberalism or is it neo-liberalism reinventing itself in a new form?

Significantly, questions over the nature of neo-liberalism, even whether it is a legitimate category of analysis, had already been raised prior to the current crisis. As Castree (2006, p. 6) concludes, "I suspect 'neoliberalism' will remain a necessary illusion for those on the … left: something we know does not exist as such, but the idea of whose existence allows our 'local' research finding to connect to a much bigger and apparently important conversation". One major reason for the scepticism over neo-liberalism concerns its diversity and complexity across time, place and issue, with a corresponding lack of distinctiveness as far as the neo-liberal component is concerned in the local application – Bush is surely neo-liberal but he nationalises banks and insurance companies! This problem has been explicitly addressed by Ferguson (2007) in the context of social policy, for he appropriately charts the extent to which the rationale for a Basic Income Grant (BIG) in South Africa has often been provided by progressives in deploying arguments that are borrowed from the neo-liberal portfolio. He reasonably asks, p. 83/4:

> When activists, trade unionists, and others opt to seek concrete economic improvements for the poor by adapting to the reality of neoliberalism and speaking its language, are they simply falling into a trap by allowing issues of power and policy to be framed within a grotesque liberal vision of society that reduces all human activity to the pursuit of capital by (more and less impoverished) "entrepreneurs"? Or are they using the space that democratization has opened up to create new and potentially promising forms of political struggle - not acquiescing in an overarching (and anti-poor) neoliberal design for society, but rather taking up and creatively redeploying

> neoliberal concepts and discursive moves in the service of a fundamentally different political end?

He concludes that, "We will also need a fresh analytic approach that is not trapped within the tired 'neoliberalism versus welfare state' frame that has until now obscured many of the key issues from view", p. 84.[9]

There are two separate issues involved here although they are closely related. One is whether neo-liberalism is too heterogeneous to allow let alone warrant an acceptable characterisation. No one can doubt the diversity to which it is attached and, yet, it also seems to capture the grander, possibly illusory, character of the past thirty years or more, not least by comparison with the putative Keynesian era that preceded it. Are we in danger of throwing out the neo-liberal baby (even as it has grown-up) with its mucky and murky bathwater? Second, though, is the strategic purchase to be made of neo-liberalism. Should it be contested as a descriptor of our reality or rejected, not least in the attempts to replace it with something else?

These conundrums can be addressed, even resolved, by appeal to three aspects of neo-liberalism that do render it a reality and one that must be strategically contested.[10] First, and brought sharply into relief by the current crisis and the responses to it, neo-liberalism, and its counterpart in globalisation, are heavily underpinned by an extraordinary expansion and promotion of financial activity. This goes far beyond the proliferation of the financial markets themselves, and corresponding speculative activity, for it is the extension of those markets (not their inner parasitism in the form of derivatives, for example) to an ever-expanding range of activities associated with both economic <u>and</u> social reproduction that has marked the neo-liberal era. Such developments are well-captured by the notion of "financialisation", signifying not only the greater weight of finance in economies but its greater scope of application, Fine (2007a and 2009d and e). Dos Santos (2009) and Lapavitsas (2009) have emphasised the extent to which banking had made its profits out of the financial services attached to the reproduction of the workforce (as opposed to dominance of industry).[11] To put it pithily, the expansion of markets in general (for which read private capital) under neo-liberalism (as with all aspects of privatisation and commodification) has underpinned the expansion of finance in particular. Further, financialisation, as the key distinguishing feature of the neo-liberal era, is what justifies the term both in itself and in its effects by marking the contrast with, and even the reversal of, the previous Keynesian period.

This is not simply a matter of macroeconomic policy but the heavy subordination of economic and social policy more generally to the dictates of the promotion of markets in general and especially of finance. What the critical literature reveals from a variety of perspectives is that financialisation:[12]

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
4. Extends influence more broadly, both directly and indirectly, over economic <u>and</u> social policy.

Thus, first and foremost, neo-liberalism is underpinned by financialisation as the key defining characteristic of the world economy over the past thirty years, this both explaining and, to some degree, concealing its significance as such through appeal to a state-market dualism that does not fit the neo-liberal age comfortably as the concept's critics correctly observe.

Second, though, it is necessary to untangle neo-liberalism into two broad phases. The first is appropriately understood as the "shock" phase although of much wider, if less dramatic, applicability than to the transition economies of eastern Europe alone, although they are indicative. This is the classic phase of neo-liberalism in which the role of markets is pushed with limited regard to the consequences. It is aptly summed up in the phrase "Just do it", and ranges over user charges through to privatisation. The second phase, dating from the early 1990s, has two aspects. On the one hand is the need to respond to the dysfunction and conflict that has resulted from the first phase. On the other hand, as most dramatically revealed by the current financial crisis, is the imperative of sustaining and not just ameliorating the process of financialisation. Symbolic of this is the level of state funding that is being made available to sustain the financial system in circumstances of extreme crisis when, in better times, such funding could not be made available for health, education and welfare. I can do no better to indicate both the scale and the priorities involved than by quoting Hall (2008, p. 6):[13]

- the total value of the renationalisations of banks and insurance companies in the USA, UK and the rest of Europe is approximately equivalent to reversing about half of all the privatisations in the entire world over the last 30 years
- the USA renationalisation of the insurance company AIG is by itself equivalent to reversing all the privatisations that have taken place in the former communist states of central and eastern Europe since the collapse of communism.
- the UK government liability for the debts of Northern Rock alone is greater than the combined total value of all the private finance provided through PFI and PPP schemes in the UK and the rest of the EU over the last 17 years.

> Another way of seeing the scale of the rescue is to note that the total cost of constructing sewers and water systems throughout the world's cities, to provide household connections for water and sewerage for over ¾ of the urban population in developing countries, would require only about €280billion – about 5% of the guarantees already given to the banks.

In short, we see that in the later, if now critical, phase of neo-liberalism, preserving finance takes absolute precedence over all other aspects of state economic intervention, including those associated with privatisation (out of which, of course, finance has, at least in the past, done extremely well).

Third, then, is to acknowledge that neo-liberalism needs to be disaggregated into separate components around scholarship, ideology, policy in practice and putative representation of reality. These are not necessarily consistent with one another, and do shift over time, place and topic, and in relation to one another. In general, there are tensions between the different components that remain unresolved. Broadly, though, in the context of development for example, the shift between the two phases of neo-liberalism can be identified with the shift between the Washington Consensus and the post Washington Consensus. For the latter, in particular, justifies piecemeal intervention to enhance the imperfect workings of markets and institutions - although policies in practice might even be adjudged to have strengthened on those associated with the Washington Consensus, van Waeyenberge (2007).

4 From Neo-Liberalism to the MEC[14]

In short, if “neo-liberalism” is to be sustained by reference to financialisation, its two broad phases, and the shifting inconsistencies across rhetoric, scholarship, policy and representation of reality, what forms does this take in case of South Africa? 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.[15] 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. As it were, the 8 Cs need to be applied to the South African economy as well as its citizens’ identities and borders!

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 my own 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 decade after working on the Labour Market Commission, though, my involvement in South Africa has been minimal until renewal with invitation to a poverty conference in 2007 on the developmental state, Fine (2007b). This marked a turnaround in demand for my services, no doubt reflecting some local shift in political, ideological and intellectual climate.

So, it was with mixed feelings that I began to 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 economic policies in light of market imperfections as opposed to the political 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 system of capital accumulation, realised through the state and the market (as opposed to one versus the other), Fine and Rustomjee (1997). The history and consequences of the MEC as a system of accumulation, centred on core sectors, that has a character and dynamic of its own, can be traced back to the emergence of mining in the 1870s through to the present day.

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, setting the borders, that can be occupied by other activities.

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, then, 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 earlier frustrated globalisation of South African conglomerates whilst others of different national origin were able to internationalise their operations freely. Paradoxically, this had the effect of intensifying financialisation within the domestic economy to a degree that far exceeds what might otherwise have occurred and leading to the conglomeration of the economy through the mining houses from core MEC sectors to finance and, then, much in between. Further, on this basis, over the past decade, it has been 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 unbundling, see below. 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.

For, 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. The second aspect is to emphasise what has been much more overlooked, and this is the extent to which South African macroeconomic policy has been designed to manage 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 as well whether for good reason or as a result of herding behaviour and speculation against the Rand. As the IMF (2008, p. 6) puts it in reporting of South Africa's financial (in)stability:[16]

> **Money, foreign exchange, and capital markets are relatively well-developed but may be subject to contagion risks given their close linkages with offshore markets**. The significant role of non-resident inflows in the stock and bond exchanges underscores their susceptibility to changes in investor sentiments, placing a premium on policies that induce investor confidence … The authorities should continue their cautious approach to foreign exchange regime liberalization with due regard to macroeconomic circumstances.

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. For the IMF (2008, p. 18) reiterates, "**The significant role of nonresident inflows in the stock and bond exchanges underscores their susceptibility to changes in investor sentiment.** This, in turn, places a premium on policies that support investor confidence and foster greater depth and liquidity of these markets". This is so much so that there is caution against loosening of exchange controls, for "**Further liberalization of the system**

would be challenging in light of the volatility in financial markets, heavy reliance on portfolio inflows, and corporate deposits in the banking system”, p. 21. To put this in provocative terms, the economic transition from apartheid might be dated from 1985 and be seen as the process of reducing capital controls from then until the present day, with caution over liberalising exchange controls signifying, not breaking with, neo-liberalism (as financialisation).

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 illegal 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.[17] 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 conservative commentators, and even before the current crisis, 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 <u>long-term</u> overhang of disinvestment attached to <u>domestic</u> 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 <u>Neo-Liberalism Changes Gear?</u>

In brief, the twenty or more 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, Roberts (2004). There were strong indications that the previous regime were preparing for a major programme to resume 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, also a time of crisis, around core MEC sectors, albeit with financialisation and BEE as two new features (and likely absence of such rapid rises in energy and gold prices that underpinned the pattern of state-led investment in the 1970s). South Africa's response to the crisis, as elsewhere, may be a reconsideration of the extent and nature of state intervention but there is no guarantee that this will materialise in progressive directions as already indicated across the globe in terms of the support to the financial sector with limited conditions attached.

This all sheds some light on the shifts in policy from RDP to GEAR to AsgiSA, and from neo-liberalism to a putative developmental state. No doubt the latter reflected at least in part a futile response to the profound dissatisfaction with the previous Mbeki leadership within government, and the results of its associated policies. There is general agreement, official denials to the contrary, that macroeconomic (and other) policy, especially with GEAR, has been neo-liberal. As Hart (2002, p. 17) puts it, there is a need for "in-depth historical and ethnographic studies grounded in particular places, but closely attentive to wider connections", of which one would appear to be for South Africa, "that political liberation and emancipatory promises coincided with the ascendance of market triumphalism on a global scale, defining the terrain on which the newly elected democratic state came to embrace neoliberalism". But there might be nagging doubts about this in light of the extent of support to social expenditure, the limited extent of privatisation that has been achieved, 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 respect of the three features previously outlined, rendering South Africa in the position of exemplary illustration of neo-liberalism in many respects, especially if departing reductionist accounts in the absence of contestation. As Hart (2008, p. 680) puts it, "The key challenge, both analytical and political, is to produce concrete concepts that are adequate to the conditions with which it they {sic}are seeking to come to grips". Hendricks (2008), for example, offers an outstanding account of how the South African state has ensured privileged pensions (of apartheid civil servants and new black elite) at the expense of increase in the national debt and more potentially progressive use of government expenditure. As he suggests, the fully funded pension scheme involved runs against (neo-liberal) trends elsewhere (more dependent on pay-as-you-go), especially in the developing world. The same is true of the extent to which South African government indebtedness has been internal as opposed to external, with the state pension funds accounting for an increase from R31billion to R136b in respective total indebtedness of R66b and R297b between 1989 to 1996. In this light, the apparent breach with neo-liberalism in South Africa in view of provision and level of universal pensions takes on an entirely different character, the crumbs spun off from advantage elsewhere as opposed even to the alleviation of social tensions. Similarly, 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).[18]

Recall also that South Africa embarked upon GEAR in the second phase of neo-liberalism and merely adopted ameliorative policies appropriate to local conditions whilst promoting financialisation as detailed. That there should be inconsistencies across this adoption of policies, ideology, representation of reality (BEE, two economies, etc) and (limited) scholarship is par for the course. The results have been tragic but have descended into farce with the claim of developmental state status, with South Africa far removed from any such resemblance (other than around serving conglomerate and related interests). That casual declarations of politicians should be taken so seriously and so quickly by the intellectual community is astonishing even if the wish for something different, and potentially more progressive, in political framework and orientation is understandable, in part as a weapon seized from, and to be used against, those who introduced it.

For, broadly, the politics of the current period are heavily marked by the transition from apartheid in which the ideological and organisational unity around its abolition has been dissipated. Struggle against the consequences of South Africa's neo-liberalism have been both extensive and fragmented and, correspondingly, weakened and undermined. What are the challenges ahead and how might they be met?

Much insight can be derived by drawing upon the following quote from 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 Inland Revenue Service:[19]

> 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 most wonderful exposé of the power and ethos of money, how it can and must be overcome, and the contradictions between ideology, scholarship, practice and representation in the expression of the identity of a particular individual.

But it is also limited in a number of ways. First, it focuses 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. Second, Stamp only structures power and privilege by reference to the bankers versus the rest of us. This is by no means either central, given finance's dependence upon industry, nor sufficiently refined in terms of differentiation within classes of slaves and enslaved, as well as by race and gender and so on. Third, as observed, how and whether the flick of the pen or some other mechanism reproduces inequalities, that go beyond fortunes at one extreme and slavery at the other, is itself highly differentiated from the restructuring of the economy and labour markets through to the separate elements of economic and social provision across housing, health, education and so on. Such differentiation in practice both by process and constituency (employed/unemployed and so on) is itself a source of fragmentation to be acknowledged and overcome in order to sustain progressive advance, both to secure and make secure alternative policies and outcomes.

In this light, with some renewed trepidation in view of the dangers of false extrapolation, I return once more to earlier work on the consumer and consumer politics. Elsewhere, Fine (2005), I have argued that the latter is self-limiting for the following reasons. First, as we are all consumers, consumer politics is caught in the contradiction of presenting particular interests as if they were general, and this cannot be sustained the more effective the politics becomes and particular interests are promoted or defended. Of course, this is not unique to consumer politics as the same is true of citizenship, human rights, and, within borders, nationality, and so on. Thus, the most basic consumer politics of campaigning against higher prices tends to identify manufacturers, retailers, even government as purveyor of taxes and subsidies, as the other. But to be defined as opposition is equally to fragment the universal category of the consumer and to open up the 8 Cs previously enumerated in creating the identity of consumer politics.[20]

Second, consumer politics is not only about price and quality but also concerns the ethics of consumption itself, ranging from sustainability of the environment to the working conditions and wages of sweatshops and child labour. This implies, once again, not only that the consumer's politics are differentiated and subject to the 8 Cs but, even if not recognised as such, the consumer is also prised away from the market and attached to social issues more generally. The consumer becomes a citizen and, correspondingly, the politics becomes broader and different, not least attaching itself to a discourse of rights and needs as opposed to equality (and inequality) before the market alone.

Third, as consumer politics evolves, it inevitably traces its concerns not only across the broader terrain of citizenship but also backwards to the origins of products in the systems of production, distribution and exchange. This can lead to, or even be inspired by, antipathy to private provision, with demand for public provision instead as with health, education, and so on. It can depart the narrow focus on the product and its terms of availability to address, as mentioned, conditions of work and for the environment. The result is to reinforce the tensions across the consumer/citizen and universal/particular interests and divides and to transform consumer politics into something else that further reinforces those tensions and divides. For, in case of public consumption (notably absent from postmodernist, discursive accounts), the issue becomes one of the welfare state (and, not surprisingly, commercialisation of public services is concerned to present citizens as consumers and not vice-versa). Otherwise, it is a matter of, for example, trade unionism and the environmental movement. Consumer politics is limited because it becomes different and something else the more it succeeds.

And, as with struggles over water and electricity, it may never have been consumer politics in the first place. But, in light of Stamp, the general conclusion that I draw from this, for South Africa as elsewhere, is that policy and provision have to be insulated, at least as a first step, as far as possible from the flick of the pen of financialisation as opposed to being embroiled and integrated within it. Currently, the antipathy to neo-liberalism and finance as its vanguard is at a higher point than for a long time in view of the iniquity and sin, let alone downright dysfunction, with which it is associated. But this is no guarantee of progressive alternatives, not least as finance will seek or automatically turn on its destructive powers if not appropriately served. Outcomes will depend upon the strength and unity of popular movements. And, I suspect, the failure to deliver more progressive policies in South Africa in the past by the post-apartheid government has reflected 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, enhanced and widened provision.

Here, though, there is a striking difference with consumer politics. For, as argued, it begins with an ideology of universal common interests in principle that is illusory and cast asunder as it is pursued in practice, as conflicts emerge over what are the issues, and how they should be defined and struggled over. By contrast, the politics of provision more generally (for jobs, justice, basic needs and an alternative society) begins with fragmented struggles in practice and the task of forging them into a common purpose, a dialectical task of definition, leadership, organisation and popular participation. Identity, citizenship and the negotiation of their multiplicity of borders need to follow, rather than be imposed upon, such processes.

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[1] "The pure spectral colors form a continuous spectrum, and how it is divided into distinct colors is a matter of culture, taste, and language", http://en.wikipedia.org/wiki/Color

[2] I suspect this should not have been allowed as I was not a member of the Commission itself but its proceedings were conducted informally with costs as well as benefits as will be seen. See Fine (2008b) for an account of my questioning of Chris Stals, then Governor of the Reserve Bank.

[3] It would be an interesting exercise to trace forward, and trace back, the subsequent trajectories of the Commissioners – a sort of Bridge of San Luis Rey for the new, and

old, South Africa. What brought us there together and, fatal accidents apart, where were we going?

[4] See previous footnote in light of his appointment as Chair of Eskom in July, 2008.

[5] At least, he might be said to have done his homework.

[6] This initiated a stream of contributions, addressed in my own critique as well as some of the other criticisms from within heterodox economics.

[7] See Fine and Milonakis (2009).

[8] Initially, I began with just 5.

[9] Nor is Ferguson alone in questioning the liberal use of neo-liberalism in addressing social policy. For Molyneux (2008, p. 775):

> The term neoliberal is widely used as shorthand to describe the policy environment of the last three decades. Yet the experience of the Latin American region suggests that it is too broad a descriptor for what is in fact a sequenced, fragmented and politically indeterminate process.

[10] See Fine (2009d and e) on the issues that follow.

[11] They now term this financial expropriation of wage revenue but see Fine (2009g) for a different view.

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

[13] See also Naudé (2009) on the G-20 Summit:

> Many have already remarked on the fact that huge amounts of money have been found at short notice to bail out banks, but that money to bail out the world's bottom billion can never be mobilized. Contrast for instance the $ 50 billion agreed on for developing countries at the summit with the estimated $ 8.4 trillion for bailing out banks. As Oxfam recently remarked, the latter amount is sufficient to end extreme poverty worldwide for 50 years.

[14] Much of the account here draws more or less directly from Fine (2008a) which in turn has been incorporated into Fine (2008b and 2009f).

[15] Most recently, see Fine (2009b and c) in debate with Hausmann and Andrews (2009).

[16] Note that this Report does acknowledge that, p. 7 :

> **The extensive interlinkages in the financial sector make supervisory cooperation critical**. The system is dominated by a number of financial conglomerates, underscoring the need for regulators to ensure that supervision is both strong at the sectorial level and addresses risks that span more than one sector.

But, at no point, is there any reference to the problem of long-term capital flight by conglomerates with one exception that proves the rule, "Nevertheless, South African banks are exposed to significant liquidity risks associated with a heavy reliance on domestic wholesale corporate deposits which results in part from long-standing limitations on capital outflows of corporates and institutional investors", p. 11.

[17] For a glass half-full interpretation of this situation, see IMF (2008, p. 7):

> **Access to financial services has improved markedly in recent years.** Through a combination of market-friendly interventions by the public and private sectors, the "banked" population in South Africa has grown from about

> 25 percent in 1994 to 63 percent today. Remaining challenges include: (i) bringing nonsalaried individuals into the system; (ii) broadening access to nonbank services; and (iii) financing small-and medium-sized enterprises (SMEs) and affordable housing.

[18] As documented in Fine (2008a) in the context of institutional capacity to deliver policies (lack of which is used as an excuse for failing even to try). With plenty of examples to highlight, there would appear to be plenty of capacity to deliver the policies that have priority, and little effort to build capacity for alternatives.
[19] See http://en.wikipedia.org/wiki/Josiah_Stamp,_1st_Baron_Stamp
[20] As chance would have it, my uncle was instrumental in setting up the Consumer Association in the UK, an organisation whose most well-known product is the magazine Which, that has primarily become a means of advising middle-class purchasers on tested products. At its origins, though, it was perceived to be a communist conspiracy simply by virtue of challenging the price and quality of manufacturers' products!