

March 2019

# THE POLITICAL ECONOMY OF ACCUMULATION IN SOUTH AFRICA: Resource Extraction, Financialization, and Capital Flight as Barriers to Investment and Employment Growth

Seeraj Mohamed

Follow this and additional works at: [https://scholarworks.umass.edu/dissertations\\_2](https://scholarworks.umass.edu/dissertations_2)



Part of the [Finance Commons](#), [Growth and Development Commons](#), [Macroeconomics Commons](#), and the [Political Economy Commons](#)

---

## Recommended Citation

Mohamed, Seeraj, "THE POLITICAL ECONOMY OF ACCUMULATION IN SOUTH AFRICA: Resource Extraction, Financialization, and Capital Flight as Barriers to Investment and Employment Growth" (2019). *Doctoral Dissertations*. 1533.  
[https://scholarworks.umass.edu/dissertations\\_2/1533](https://scholarworks.umass.edu/dissertations_2/1533)

This Open Access Dissertation is brought to you for free and open access by the Dissertations and Theses at ScholarWorks@UMass Amherst. It has been accepted for inclusion in Doctoral Dissertations by an authorized administrator of ScholarWorks@UMass Amherst. For more information, please contact [scholarworks@library.umass.edu](mailto:scholarworks@library.umass.edu).

**THE POLITICAL ECONOMY OF ACCUMULATION IN SOUTH AFRICA:**  
Resource Extraction, Financialization, and Capital Flight as Barriers to Investment and  
Employment Growth

A Dissertation Presented

by

SEERAJ MOHAMED

Submitted to the Graduate School of the  
University of Massachusetts, Amherst in partial fulfilment  
Of the requirements for the degree of

DOCTOR OF PHILOSOPHY

February 2019

Economics

© Copyright by Seeraj Mohamed 2019  
All Rights Reserved

**THE POLITICAL ECONOMY OF ACCUMULATION IN SOUTH AFRICA:**  
Resource Extraction, Financialization, and Capital Flight as Barriers to Investment and  
Employment Growth

A Dissertation Presented

by

SEERAJ MOHAMED

Approved as to style and content by:

---

Gerald Epstein, Chair

---

Robert Pollin, Member

---

James Heintz Member

---

Léonce Ndikumana, Department  
Chair Economics

## DEDICATION

To Tamara and Gabriel

## ACKNOWLEDGEMENTS

I thank my advisor Gerald Epstein for his many wise years of kind, patient support and guidance that inspired and helped me to keep faith in my work. I also thank the other members of my committee, Robert Pollin and James Heintz, for their generous support and excellent guidance over many years. I am grateful to Léonce Ndikumana and all those I learnt from while completing my coursework. Their teaching influenced the writing of this dissertation. In particular, I mention Jim Crotty whose body of work on macroeconomics and finance provided much insight and inspiration.

I am grateful for the support I received as a Nelson Mandela Scholar and wish to thank all those involved in administering the scholarship. I also thank the Political Economy Research Institute for their financial support. I wish to express my great gratitude to the ophthalmologists and other medical staff who operated on and helped care for my eyes during the time I was working on this dissertation.

I wish to thank my colleagues and associates with whom I worked while researching and writing this dissertation. In particular, I thank those I worked with during my time at the Corporate Strategy and Industrial Development Research Programme at the University of the Witwatersrand, including Simon Roberts, Nicolas Pons-Vignon, Susan Newman, Sam Ashman, Firoz Khan, and Sajida Durwan, as well as Nimrod Zalk, Ben Fine and Bill Freund.

A special thanks to friends and family for their patience and support over many years, particularly my wife, Tamara, my son, Gabriel, and my sister, Nazeema. Finally, I wish to express my gratitude to my parents who supported my education.

## ABSTRACT

### THE POLITICAL ECONOMY OF ACCUMULATION IN SOUTH AFRICA: RESOURCE EXTRACTION, FINANCIALIZATION AND CAPITAL FLIGHT AS BARRIERS TO INVESTMENT AND EMPLOYMENT GROWTH

FEBRUARY 2019

SEERAJ MOHAMED, BA, UNIVERSITY OF CAPE TOWN

M.A., WILLIAMS COLLEGE

Ph.D. UNIVERSITY OF MASSACHUSETTS, AMHERST

Directed by Prof. Gerald Epstein

This dissertation uses a heterodox economics approach to explain poor levels of accumulation in South Africa. This approach to investment theory and models recognizes that many institutions are shaped to help people create stability in a world of fundamental uncertainty and irreversibility. Therefore, this dissertation examines the system of accumulation that developed in South Africa and its evolution. This approach to investment recognizes that beliefs and biases of people running institutions influence investment outcomes and shape ‘path dependence’.

The corporations that grew to dominate the South African economy were formed during colonialism and apartheid. They grew around a core of finance, mining and minerals related activities. By the 1980s, four diversified conglomerates and two financial companies dominated ownership and control over most of the economy.

The end of apartheid during the 1990s coincided with widespread neoliberal deregulation and economic globalization of trade and financial markets and growing financialization. Global corporate restructuring through mergers and acquisitions reshaped global corporations and global commodity chains and divided increasingly

concentrated global markets. The post-apartheid government adopted neo-liberal economic policies that liberalized finance, aided financialization and allowed internationalization and selective withdrawal by some of the largest corporations from the economy. The original contribution of this dissertation is an analysis of accumulation during the post-apartheid period with a focus on financialization of the economy and the restructuring and internationalization of the largest corporations.

South Africa's large conglomerates responded to domestic political change and global corporate restructuring by deconglomerating, restructuring and internationalizing much of their operations. In the process, they redivided the economy amongst themselves and with a few new entrants they concentrated market power. Financialization and internationalization of these corporations was associated with a disconnect between equity and financial markets and the real economy. Along with the impact of large, volatile uncontrolled capital flows, they have steered a growth path shaped by debt driven consumption and speculation in real estate and financial markets. There have also been high levels of capital flights from the economy. The outcome has been deindustrialization, decreased diversity of productive sectors and increased reliance on extractive industries.



## TABLE OF CONTENTS

	Page
ACKNOWLEDGEMENTS .....	v
ABSTRACT .....	vi
LIST OF TABLES .....	xi
LIST OF FIGURES .....	xii
 CHAPTER	
1 INTRODUCTION .....	1
1.1 The Main Argument of the Dissertation .....	1
1.2 Poor levels of accumulation.....	6
1.3 Post-apartheid accumulation and government policy .....	25
1.4 Dissertation outline .....	29
1.4.1 A More Detailed Outline of the Dissertation .....	30
2 THEORIES AND MACROECONOMETRIC MODELS OF INVESTMENT .....	36
2.1 Introduction.....	36
2.2 Mainstream macroeconomic investment models.....	39
2.2.1 Accelerator Models.....	39
2.2.2 Neoclassical investment model.....	41
2.2.3 Tobin’s Q models.....	42
2.2.4 Euler Equation models.....	43
2.2.5 New-Keynesian financing constraints models.....	44
2.2.6 Uncertainty and Option Value Models .....	47
2.2.7 Conclusion (mainstream investment models).....	48
2.3 Heterodox macroeconomic models.....	50
2.3.1 Introduction.....	50
2.3.2 Demand and aggregate demand .....	56
2.3.3 Income distribution and class.....	60
2.3.4 Structures of accumulation and regulation .....	63
2.3.5 Economic growth path and path dependency .....	68
2.3.6 Credit, monetary institutions and endogenous money .....	71
2.3.7 Market structure .....	73

2.3.8	Financialization.....	75
2.4	Towards a definition of rent, rent-seeking, rentiers, and productive and unproductive activities .....	87
2.5	Conclusion .....	92
3	HISTORICAL BACKGROUND .....	94
3.1	Introduction.....	94
3.2	The development of mining and interpenetration with international capital .....	98
3.3	Changes in the international financial system and financialization of South African corporations.....	105
3.3.1	Domestic financial deregulation and financial sector growth in 1980s ....	106
3.3.2	Financialization, restructuring and international integration of SA big business during the 1990s .....	110
3.3.3	Financialization in the transition from apartheid to democracy .....	119
3.4	Conclusion .....	127
4	FINANCIALISATION, CORPORATE RESTRUCTURING AND INTERNATIONALISATION SINCE 2000.....	129
4.1	Introduction.....	129
4.2	Financialization and accumulation in the South African economy .....	132
4.3	Corporate restructuring since 2000.....	141
4.4	The changed corporate landscape after the major corporate restructuring of the 1990s and early-2000s.....	148
4.5	Corporate restructuring case study: Anglo American PLC .....	153
4.6	Conclusion .....	161
5	THE IMPACT OF CAPITAL FLOWS ON THE SOUTH AFRICAN GROWTH PATH SINCE THE END OF APARTHEID.....	164
5.1	Introduction.....	164
5.2	Review of literature on causes capital flows and financial crises.....	171
5.3	South Africa receives a surge in net capital inflows.....	177
5.3.1	Three Routes to Financial Crises .....	177
5.3.2	The Nature of Capital Flows into South Africa .....	180
5.4	How the surge of capital inflows was absorbed by the South African economy. ....	189
5.5	South Africa's economic growth path and capital flows .....	201
5.6	Conclusion .....	203

6	CAPITAL FLIGHT FROM SOUTH AFRICA .....	205
6.1	Introduction.....	205
6.2	Literature Review.....	211
6.3	Method and Data.....	214
6.4	Estimates of capital flight .....	216
6.5	Discussion of results .....	217
6.5.1	Capital flows and financial instability .....	230
6.6	Conclusion .....	232
7	CONCLUSION.....	234
	BIBLIOGRAPHY.....	242

## LIST OF TABLES

Table	Page
Table 1.1: Comparison of manufacturing performance .....	23
Table 4.1: Summary of JSE market capitalisation control (1995-2016) .....	141
Table 4.2: Broad composition of ownership of JSE-listed companies at the end of 2016.....	143
Table 4.3: Return on assets (ROA) and return on equity (ROE) for the top 50 JSE companies for selected sectors.....	151
Table 6.1: Capital flight calculations (\$US millions) .....	216

## LIST OF FIGURES

Figure	Page
Figure 1.1: Comparing annual average growth rates per capita .....	7
Figure 1.2: Some components of GDP .....	8
Figure 1.3: Comparing gross fixed capital formation as a percentage of GDP for South Africa with averages for different income country groups.....	12
Figure 1.4: Private and public investment as percentages of GDP.....	13
Figure 1.5: Private and general government and public corporations capital stock as percentages of GDP .....	14
Figure 1.6: Sectoral changes in fixed capital stock from 2000 to 2016 presented as percentages of 2016 GDP .....	16
Figure 1.7: Time series trends for manufacturing.....	21
Figure 1.8: trend in formal employment manufacturing sectors.....	22
Figure 4.1: Private sector credit extension by all monetary institutions by type .....	135
Figure 4.2: Nominal vs real house price growth in South Africa (annual percent growth).....	136
Figure 4.3: Credit extension and investment as percentages of GDP .....	137
Figure 4.4: Capital allocated to net acquisition of financial assets and fixed investment (percentage of GDP) .....	138
Figure 4.5: The main sources and uses of capital in corporate business enterprises .....	139
Figure 5.1: Total net financial flows as a percentage of GDP .....	165
Figure 5.2: Capital inflows by type as percentages of GDP .....	168
Figure 5.3: Net capital flows by type (as % GDP) .....	180
Figure 5.4: Net portfolio flows for Mexico, Brazil, South Korea, Thailand and South Africa .....	184
Figure 5.5: Portfolio inflows, outflows and net flows as percentages of GDP.....	186
Figure 5.6: Domestic credit to private sector (% of GDP) .....	190

Figure 5.7: Real and lending interest rates.....	191
Figure 5.8: Balance on current account and trade balance (percentage of GDP).....	193
Figure 5.9: Exports and imports (percentage of GDP) .....	194
Figure 5.10: Household debt, debt service and savings (as percentage of disposable income) .....	195
Figure 5.11: Household consumption (% GDP).....	197
Figure 5.12: Net capital flows, trade balance and real effective exchange rates .....	198
Figure 5.13: All share price index.....	200
Figure 6.1: Capital flight as percentage of GDP with comparison of Mohamed and Finnoff (2005) with CSID (2010).....	217
Figure 6.2: Capital flight and change in debt as percentages of GDP .....	223
Figure 6.3: Capital flight and misinvoicing as a percentage of GDP .....	223
Figure 6.4: Capital flight and net foreign investments as a percentage of GDP.....	224
Figure 6.5: Capital flight and current account plus changes in reserves as a percentages of GDP.....	225
Figure 6.6: Capital flight and the real effective exchange rate .....	228
Figure 6.7: Exports and gross fixed capital formation as a percentage of GDP.....	228
Figure 6.8: Net capital flows and capital flight as percentages of GDP .....	230

# CHAPTER 1

## INTRODUCTION

### 1.1 The Main Argument of the Dissertation

This dissertation attempts to explain the continuing poor levels of investment and accumulation in South Africa during the post-apartheid period. The main argument is that the continuing low level of investment is due to economic and political structural factors which have continued in the post-apartheid era and have been further exacerbated by factors related to the evolution of the global economy. The dissertation focuses on three main structural factors: The continued dependence on the mining-industrial complex and finance for accumulation and growth in the productive sectors even as these sectors contribute less and less to accumulation; the increased financialization of these sectors which reduce their contribution to accumulation; and the selective withdrawal of capital and restructuring by large corporations from South African economy, along with increased capital flight by wealth holders. These jointly interacting factors have been over-looked in most analyses of South Africa's post-apartheid growth processes yet they can make a significant contribution to understanding the failure of the post-apartheid economy to generate sustained growth and rapid employment creation.

To elaborate, the large corporations that could have contributed to addressing the structural weaknesses in the economy have instead chosen to allocate capital in a way that perpetuated poor accumulation in the economy.<sup>1</sup> In essence, they seem to have been

---

<sup>1</sup> A central theme of this dissertation is the important role played by big business in South Africa and how a few very dominant, large corporations have been crucial in shaping the development of the economy (and society). The post-apartheid period has seen extensive restructuring of these corporations.

selectively withdrawing from the economy, as they internationalized and restructured in response to the pressures of financialization and the shareholder value movement. At the same time, a significant share of capital has been allocated towards capital flight from the economy further exacerbating their withdrawal from the economy and reducing domestic capital available for accumulation. Moreover, despite the government's focus on attracting more capital inflows as a development strategy, increased foreign capital flows entering the economy since the end of apartheid have not increased the level of accumulation. Instead, these flows seem to have been allocated towards non-productive activities and seem to have been disruptive for the economy. These problems in the all-important accumulation process therefore suggest that the policies of the post-apartheid government have not adequately addressed the structural weaknesses in the economy or managed to significantly improve the allocation of capital towards enhancing the rate of capital accumulation. Instead, the adoption of neo-liberal economic policies has contributed to this withdrawal and misallocation of capital.

The misallocation of capital in South Africa over the transition to democracy and post-apartheid period had influenced the South African economic growth path in a negative way. In more specific terms, I argue that the structural weaknesses of the economy, the intense dominance of a few corporations and the close relationship of South African capital with international capital combined with the post-apartheid government's adoption of neo-liberal economic policies has not only channeled credit, savings and investment to areas of the economy where big business can extract economic rents, but also to massive hemorrhaging of capital out of South Africa.



The transition to democracy in South Africa, coincided with both widespread financialization and a new wave of economic globalization marked by activities of corporations to increase concentration and control of global value chains. The large corporations that dominated the South African economy attempted to grow into large international players. They used their dominant positions and their resources in the South African economy as platforms to expand into global markets and value chains. This reorientation of the largest South African corporations and reallocation of capital led to large-scale corporate restructuring, and particularly with the growing influence of the shareholder value movement, increased deindustrialization and hindered diversification into downstream manufacturing sectors. At the same time, the large growth in FDI that the government hoped for had not materialized (Roberts et al, 2003, Mohamed, 2010).

There has been growth of foreign capital inflows in the form of short-term portfolio capital flows. However, these short-term foreign capital flows while increasing private sector access to credit have not been allocated to productive investment. Instead, these 'hot money flows' were associated with increased levels of debt-driven consumption, higher levels of imports for this debt-driven consumption, reduced downstream manufacturing capacity, high levels of capital flight and speculation in securities and real estate markets. The low levels of domestic investment and the domestic absorption of short-term foreign capital flows were accompanied by unsustainable increases in the rate of GDP growth that had been driven by consumption and speculation. The severe impact of the 2008 global financial crisis on the South African economy, which lost over 1 million jobs and suffered a recession, put an end to

these unsustainable drivers of growth. The economy has limped along since the crisis with employment, investment and growth stagnating.

There is an important link between consumption and speculation led growth and the growth in the contribution of services to the economy. The growth in services has been in areas related to consumption (wholesale and retail trade, business services, transport services and communication) and also speculation (financial and business services). In addition, there has been growth in services related to social problems caused by poverty and inequality. A significant share of growth in business services has been in the private security industry as those with wealth perceive the need for greater protection of themselves and their property. Another area of growth in business services has been due to outsourcing and informalization of activities and jobs that had been located within mining, manufacturing and government.

Some argue that South Africa has evolved into a services economy because the services sector makes a larger contribution to GDP than manufacturing and mining (Marais, 2011). However, a large part of the reason for growth in services is related to continued, unresolved structural weaknesses in the economy and misallocation of capital rather than a new economic growth path (see Chapter 4 for more discussion about the character of the recent growth in services).

The control of market capitalization on the Johannesburg stock exchange has shifted from a few large South African corporations to foreign portfolio investors and South African institutional investors. The financialization of the corporate sector and the related focus on maximizing shareholder value through pursuit of higher short-term returns was associated with the increase of portfolio capital flows and the greater control

of market capitalization by institutional investors. Share buybacks and dividend payouts have increased. Non-financial corporations have shown signs of financialization as net acquisition of financial flows have been large relative to net capital formation.

I do not use only economic theory but an application of this theory that considers economic history and the evolution of institutions in the South African economy. In this way, I attempt to develop an understanding of the current problems with investment in the economy. My contribution to understanding the macroeconomic factors affecting levels of accumulation in South Africa is different to most mainstream economists' accounts which generally provide a relatively ahistorical analysis of the South African economy. They try to explain low levels of investment through explaining the low level of competitiveness of South African firms in global trading markets. They argue that high tariffs and poor levels of competition in South Africa have protected large dominant firms. They argue for export orientation (as opposed to import substitution industrialization) and unilateral reduction of tariffs to support the competitiveness of South African manufacturing (see for example Hausmann and Andrews, 2009 and Fine, 2009). They claim that growth in competitiveness of South African firms would lead to more investment. They do not adequately consider how the historical and institutional evolution of the economy has led to structural weakness, a degree of path dependence and a constellation of political and economic power relations that steered capital towards certain types of investment, particularly those in mining and minerals sectors of the economy and into the financial sector and other services where high rents could be extracted. There is also legal movement of capital out of the country and illegal capital flight that steers capital away from long-term productive investment in the economy.

Further, mainstream economics accounts, in contrast to my approach in this dissertation, do not adequately discuss the impact on South Africa of changes to the global economy as a result of neo-liberal liberalization of financial markets. In particular, they generally do not consider the implications of changes in global financial markets and global financialization on the South African economy and investment patterns and industrial performance in the economy (Fine, 2009, Mohamed, 2010).

The rest of this introduction will introduce readers to the problem of poor accumulation in the South African economy. The next part of this introduction presents data and initial discussion of the performance of the South African economy. It starts with a discussion of economic growth and a discussion that explores the nature of this economic growth since the end of apartheid. It then discusses investment performance trends. These trends will be more fully discussed in chapter 4. The section that follows considers the link between the government's economic policy choices and the factors explained above that contributed to poor levels of accumulation in the economy. The final section is an outline of the rest of the chapters of this dissertation.

## **1.1 Poor levels of accumulation**

This section will show that accumulation has been poor in South Africa since the 1970s and will provide data on economic growth and investment to illustrate the roots of poor accumulation. The concern with poor levels of accumulation relates to a concern which is central to the perspective of this dissertation: effectively addressing the extraordinarily high levels of unemployment, poverty and inequality in South Africa.

Statistics South Africa (StatsSA) measured the poverty headcount (using the upper-bound poverty line of R992 per person per month in 2015 prices) at 30,4 million South Africans (55.5% of the population) living in poverty in 2015.<sup>2</sup> By 2017, after 24 years of democracy, South Africa's official (narrow) unemployment rate was 26.7% and inequality by 2015 measures was the highest in the World using both the Gini coefficient and the Palma ratio. A recent Guardian Newspaper article<sup>3</sup> noted that the World Bank measured the Gini coefficient index for South Africa at 63.4 in 2015. They show that the Palma ratio, which divides the top decile's share of gross national income (GNI) and the poorest 40% of the population's share, to measure 7.1 in 2015.

Orthofer (2016) reported that 95% of the wealth was owned by the wealthiest 10% of the population. The concern with accumulation is not to say that improved accumulation by itself will reduce poverty and inequality but to provide a historical and institutional analysis that examines wealth, power and the role of the state in the allocation of capital and the nature of accumulation. Many of the answers to improving the socio-economic problems may be found in this analysis of capital allocation and accumulation.<sup>4</sup>

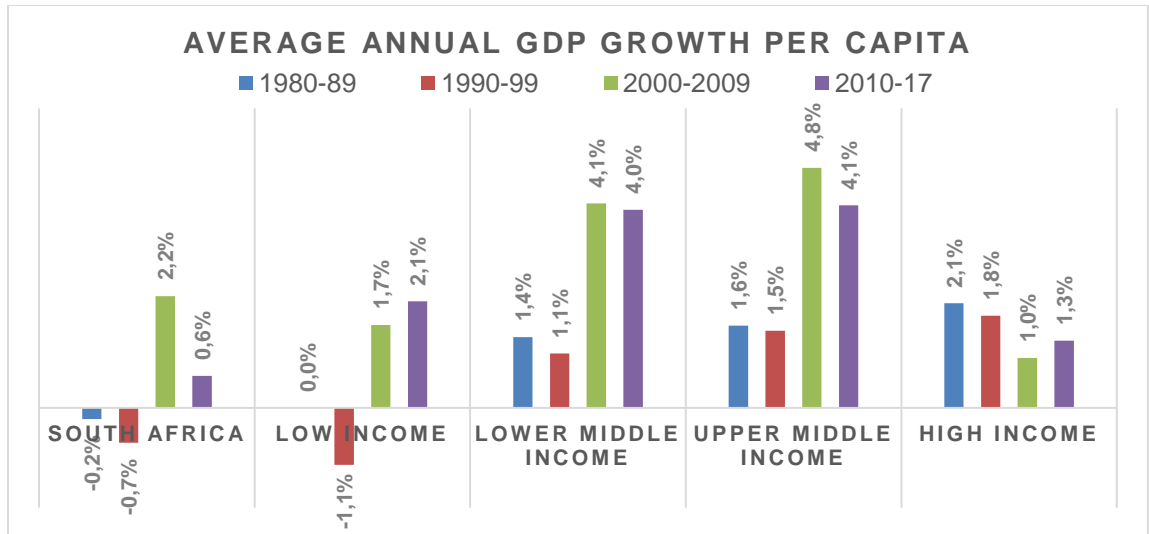
### **Figure 0.1: Comparing annual average growth rates per capita**

---

<sup>2</sup> See <http://www.statssa.gov.za/?p=10334>. The poverty line of R992 when taking using the annual average of R12.77 to a dollar exchange rate for 2015 was US\$77.

<sup>3</sup> See <https://www.theguardian.com/inequality/datablog/2017/apr/26/inequality-index-where-are-the-worlds-most-unequal-countries>

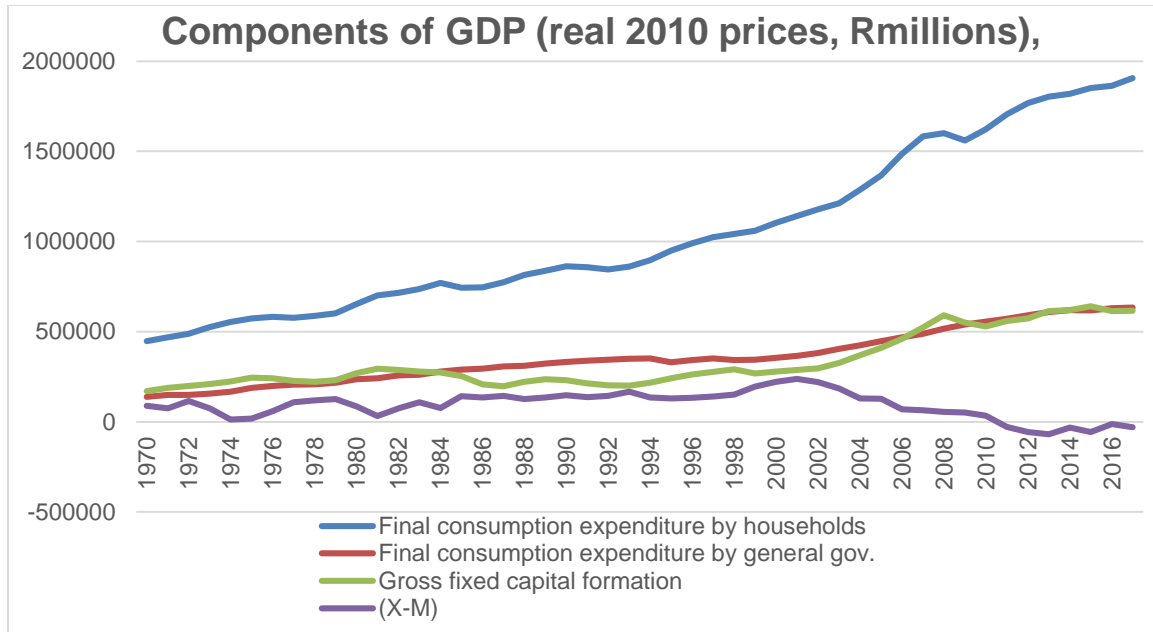
<sup>4</sup> Palma (2011) in one of the first published articles with his use of what became known as the Palma ratio says, with regard to the relationship between inequality and growth: "It's all about the share of the rich, and what they do with it". In fact, the subtitle of the article was "It's all about the rich"



Source: World Banks’s World Development Indicators (WDI)

Average GDP per capita growth for South Africa (0.9%) for the decades 1980-89, 1990-99, 2000-2009 and the eight-year period 2010-2017 was lower than that of both the averages for lower and upper middle income countries (see figure 1.1). This measure provides an indication of whether on average GDP growth is keeping up with population growth. However, one has to take into the very high level of income inequality in South Africa when considering the average annual GDP per capital growth

**Figure 0.2: Some components of GDP**



Source: South African Reserve Bank (SARB)

A decomposition of national income (using real 2010 prices) shows that household final consumption expenditure was by far the fastest and largest growing contributor to GDP over the past decade (see figure 1.2). Real household consumption expenditure picked up pace from the early 1990s and then grew even faster from the early 2000s until the global financial crisis in 2008. There was a recovery in household consumption after 2009 but it grew at a slower pace from 2013 to 2017.

Notwithstanding a huge need for increased spending to address the legacies of apartheid, including high levels of poverty, unemployment and inequality, and to restructure the economy, the new government did not increase real consumption expenditure from 1994 until 2000. Instead they chose to lower the government deficit in line with their adoption of a neoliberal macroeconomic approach that was formalized in the Growth Employment and Redevelopment (GEAR) program announced in 1996. After 2000, there was a real increase in government consumption spending as the deficit had declined and growth in GDP supported growing government revenues. This real growth

was in fact procyclical<sup>5</sup> and lasted until the global financial crisis in 2008 and then grew more slowly until 2012. There was flattening of government consumption after 2012 with the adoption of fiscal consolidation, which combined with low investment and constrained household consumption has been a drag on GDP growth.

Real investment expenditure (gross fixed capital formation), that includes private and public investment, declined from the early 1980s until 1994 and recovered to the level of the early-1980s only by 1998. There was no real growth in annual investment expenditure from 1998 until 2002 and a rapid growth in real investment expenditure from 2003 until 2008 when real spending on investment flattened until 2017.

The absorption of capital flows into the economy and its impact on consumption and investment will be explored in more detail in Chapter 5. In chapter 5, I argue that capital inflows influenced the components of national income in figure 1.2. I argue that consumption is affected by the increased liquidity in the financial sector and debt markets associated with growing net capital flows to South Africa from 1994.<sup>6</sup>

Consumption grew fast until net capital flows declined at the time of the Asian financial crisis and then recovered as flows rapidly returned in 1999. By 2000, consumption seemed to have generated enough momentum not to be affected by the dotcom crash. Consumption growth continued through the currency crisis in 2001 (when the rand declined by 35% to the dollar) following a crash in portfolio flows to South Africa. However, the effect of the recovery in net capital flows from 2003 and the

---

<sup>5</sup> In Mohamed (2010, 2016), I argue that the government decision to increase expenditure further boosted growth after 2003, which was driven by increased extension of credit to the private sector that was used to drive up real estate and financial market asset prices and the increased in consumption,

<sup>6</sup> See Chapter 5 for data, description and analysis of the trends in foreign capital flows to South Africa.



associated increase in liquidity on consumption is associated with a further increase in the rate of growth in consumption from 2003 to 2007.

In order to assess the performance of accumulation in the South African economy it is necessary to consider investment performance in more detail. The level of investment in South Africa was above the world average during the 1970s and comparable to the averages for middle and upper middle income countries.<sup>7</sup> The level of investment declined significantly since the 1970s and has been poor when compared to world averages and performance of averages for lower middle, middle and upper middle income countries.

Figure 1.3 shows gross fixed capital formation (GFCF) as a percentage of GDP for South Africa and different income groups of countries for the period 1970 to 2017. According to the World Development Indicators (WDI) data, South Africa had a decline in average GFCF as a percentage of GDP from 32% in 1976 to 16% in 1994. This decline is larger than any of the income groups' averages shown in Fig. 1.3. The WDI data indicates that average gross capital formation for each of the different income groups of countries shown does not drop below 20% during the post-1980s period.

Levels of investment in South Africa recovered after 2003 at the time that short-term capital flows into the economy grew. However, much of this growth was due to increased public sector investment linked to government's Accelerated Shared Growth Initiative (ASGISA) program initiated in 2004. The building of a new coal-fired power

---

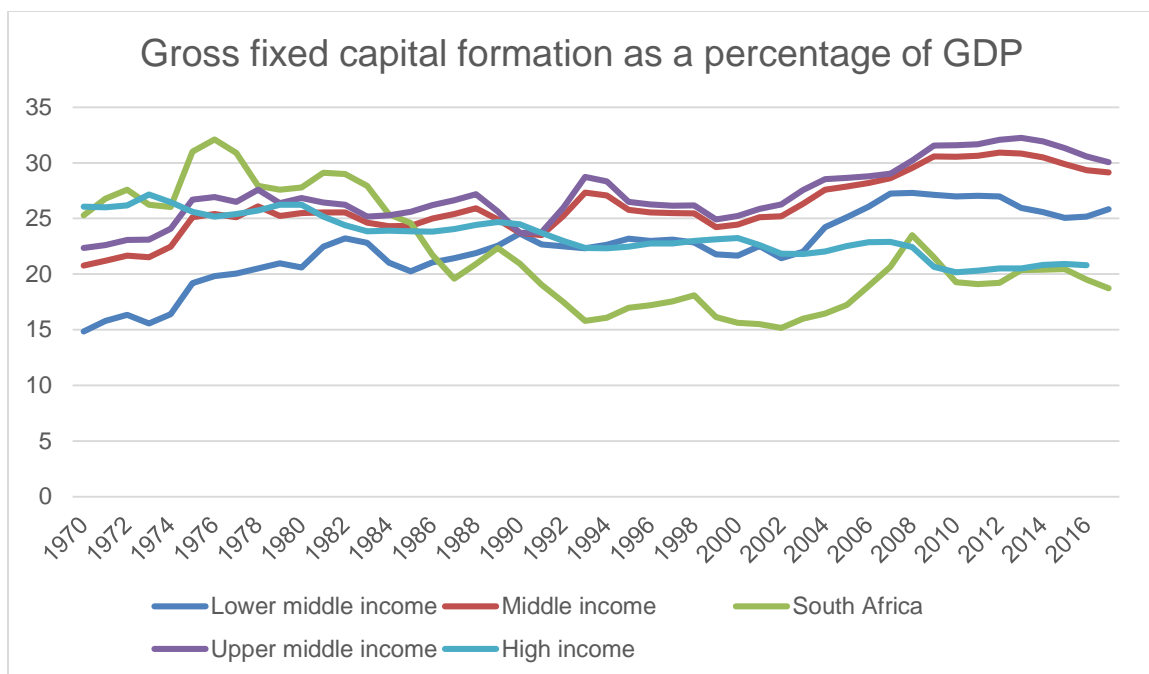
<sup>7</sup> The World Bank categorizes countries into low, lower middle, middle, upper middle and high income countries depending on the countries' level of GNI per capita. The chart compares South African investment as a percentage of GDP to the average levels of GDP per capita for different income groups.

station and the unproductive construction of stadiums for the 2010 soccer World Cup seems to have pushed investment as a percentage of GDP over 20%.

However, the effects of the global financial crisis and the associated 2009 recession in South Africa caused investment levels to drop below 20% of GDP and to remain around that level until 2017. Overall, when compared to the averages of high, upper middle, lower middle and low income countries, South Africa has lower levels of fixed investment from 1990 to 2017, except for the short period (mentioned earlier) when the public sector invested in new electricity generation and World Cup stadiums (see fig 1.3)

The recovery in South Africa's investment as a percentage GDP from 2003 was due to increased levels of government public infrastructure investment and where there was increased private sector investment it was associated with household debt-driven consumption and growth in speculation in real estate and financial asset markets. The outcome, can be seen in the effects on fixed capital formation (see figure 1.5 below), which was generally low for the productive manufacturing and services sectors but high for sectors that benefited from debt driven household consumption and increased financial market activities.

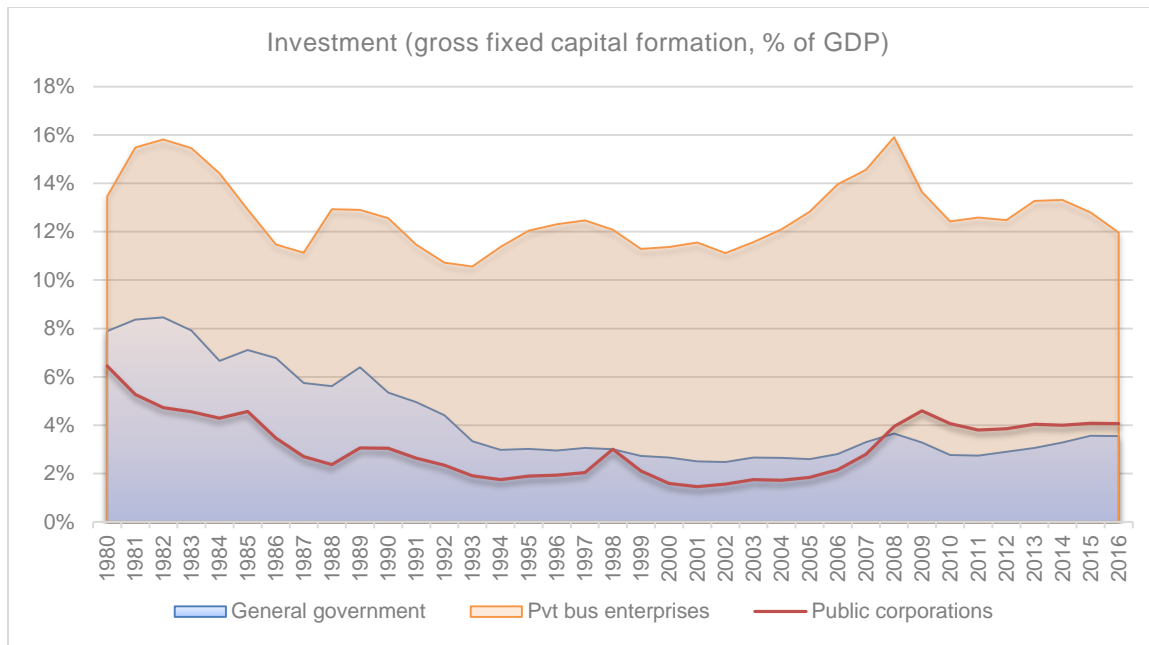
**Figure 0.3: Comparing gross fixed capital formation as a percentage of GDP for South Africa with averages for different income country groups**



Source: World Development Indicators, my calculations.

The reduction in the level of investment in South Africa was caused by decline in both public and private investment. Private investment levels remained relatively low since the 1950s when there were large investments, especially in building new mines and minerals processing industries. There was a further reduction in the level of private investment during the 1990s. The apartheid state made large investments in state owned enterprises during the 1960s and 1970s. During the 1980s, the apartheid government appeared to have accepted the neoliberal approach to state involvement in the economy. State investment plummeted (and plans were made to privatize SOEs).

**Figure 0.4: Private and public investment as percentages of GDP**

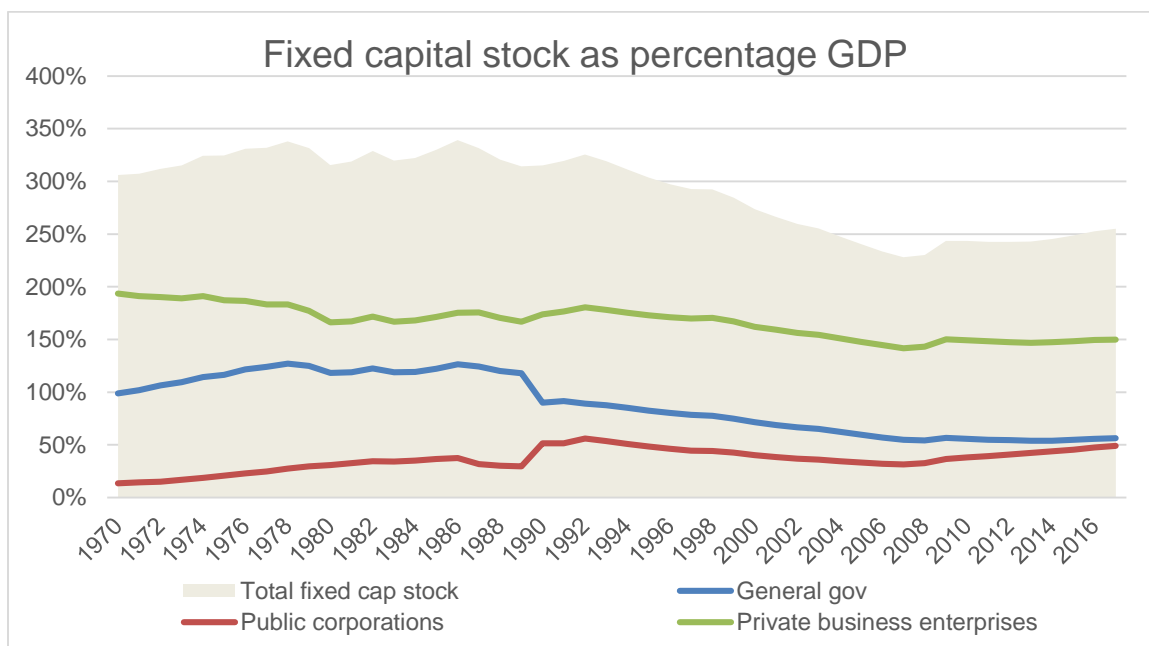


Source: Quantec

The post-apartheid state adopted neoliberal macroeconomic policies, which meant that state investment continued to remain low during the 1990s to ensure a large reduction in the government’s budget deficit. General government debt remained relatively low through to 2016. The state owned enterprises invested in infrastructure from 2006 and this relatively higher level of investment has been maintained until 2016 (see figure 1.4).

This dissertation tries to explain this stagnation in investment rates, particularly the poor performance of private investment in South Africa during this period, exploring the roles of financialization, sectoral focus and capital flight as explanations for this poor accumulation performance.

**Figure 0.5: Private and general government and public corporations capital stock as percentages of GDP**



Source: Calculated using SARB data

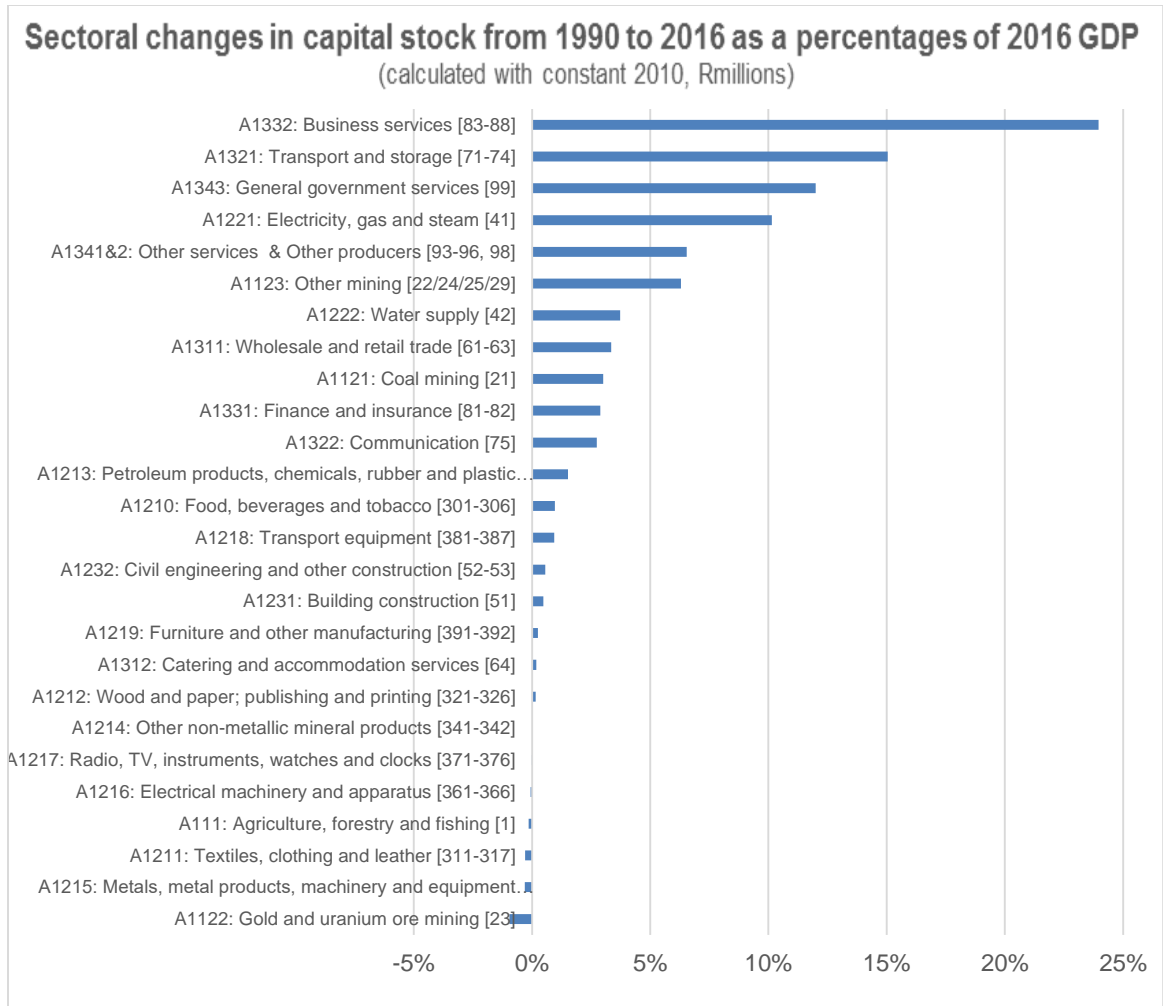
The decline in the level of investment since the 1970s took a toll on the level of fixed capital stock in the country (see figure 1.5).<sup>8</sup> Fixed capital stock as a percentage of GDP increased from 306% of the size GDP in 1970 to a high of close to 340% in 1986. Fixed capital stock declined from 1986 and a decade later dropped below 300% of GDP by 1996 and to its lowest point in 2007 of 228% of GDP. In real terms, there was an increase in total fixed capital stock of approximately R1000 billion from 1996 to 2007. Private sector fixed capital stock as a percentage of GDP generally decreased over the 4 decades from 1970. The level of fixed capital stock to GDP in 1970 was more than 190% of GDP. The level from 2010 to 2017 was fairly flat at 150% of GDP. In real terms, there

<sup>8</sup> The change in capital stock from 1989 to 1990 reflects the privatization of Sasol, a large SOE that produced oil from coal and basic chemicals.

was an increase in private fixed capital stock of approximately R600 billion during the relatively high growth period from 2003 to 2007. This real increase amounted to a decline in private fixed capital stock of 155% of GDP in 2003 to 142% of GDP in 2008.

The sharp decline in public fixed capital formation as a percentage of GDP over the past 4 decades seems to have caused an erosion of public capital stock (see figure 1.5). Public sector capital stock, comprising, general government capital stock as a percentage of GDP and public corporation capital stock as a percentage of GDP, declined. General government fixed capital stock as a percentage of GDP declined from 85% in 1994 to 55% in 2008 and stayed at that level through the post-crisis period and was 56% in 2017. Public corporation's fixed capital stock as a percentage of GDP declined from 51% in 1994 to 33% in 2008 and recovered to 49% by 2017 as a result of increased infrastructure investment.

**Figure 0.6: Sectoral changes in fixed capital stock from 2000 to 2016 presented as percentages of 2016 GDP**



Source: My calculations using Quantec data

A disaggregation of the data on changes in fixed capital stock as percentages of GDP are illuminating. I use Quantec’s data that follows the Industrial Standard Industrial Classification (ISIC) for all sectors to calculate the change in fixed capital stock for each sector from 1990 to 2016. Figure 1.6 presents this change in capital stock for each sector as percentages of GDP in 2016. The calculations were done using real 2010 prices for fixed capital stock and 2016 GDP.

The growth of fixed capital stock of the top ten sectors from 1990 to 2016 accounted for 93% of the total change in fixed capital stock (including the sectors that made a negative contribution to the total change). Within that top ten the sectors other mining (which is much dominated by platinum mining) and coal mining accounted for 19% of the total changes in fixed capital formation for the period and general government services accounted for 13% of the total change. The secondary industry, public utility dominated electricity gas and steam and water made up 17% of the total change in fixed capital stock for the period. The change in capital stock for the period of the rest of the services sectors business services, transport and storage services, wholesale services, retail trade services, finance and insurance services and other services (and excluding general government services was) amounted to 55% of the total change. There were no manufacturing sectors in the top 10. Therefore, change in fixed capital stock in services amongst the top ten, including general government services, accounted for 68% of total change in fixed capital stock from 1990 to 2016.

It is worth noting Bell et al's (2018) point that "In services too, the trend has been to lower value, lower productivity services overall, including those statistically classified as 'other business services' (such as security and cleaning services) and retail (ibid, p. II)." My coauthor and I, in Mohamed and Roberts (2007), make a similar point with regard to the increase in the number of private security company personnel and employment growth in business services where a large increase in jobs was due to reclassification of cleaning workers as other sectors outsourced these jobs to companies classified as business services.



During the period 2000 to 2008 when there was increased household debt-driven consumption and financial speculation associated with growth in credit extension to the private sector, the top 5 sectors, including general government services made up 80% of the total change in fixed capital stock. The sectors that benefited the most from household consumption and financial speculation were business services, transport and storage services, wholesale services, retail trade services, finance and insurance services. These services sectors made up four of the top 5 sectors by size of change in fixed capital stock for the period and together accounted for almost 61% of the total change during the period.

A more detailed breakdown of the sectoral change in fixed capital stock as percentages of real 2016 GDP for the period 1990 to 2016 gives one insight into the poor level of accumulation in manufacturing (see figure 1.6):

- 4 Sectors grew at 10% or more.
  - Three of these were services sectors, including general government. The other 2 services sectors were business services and transport and storage services.
  - The other sector was electricity, gas and team, which includes the state owned Eskom the national power utility.
  
- Nine Sectors grew between 1 and 10%.
  - Four of these were services, including, Wholesale and retail trade services, finance and insurance services, communication services, and a combination of 2 services sectors, other services and other producers,

which fall under the broader category community, social and personal services.

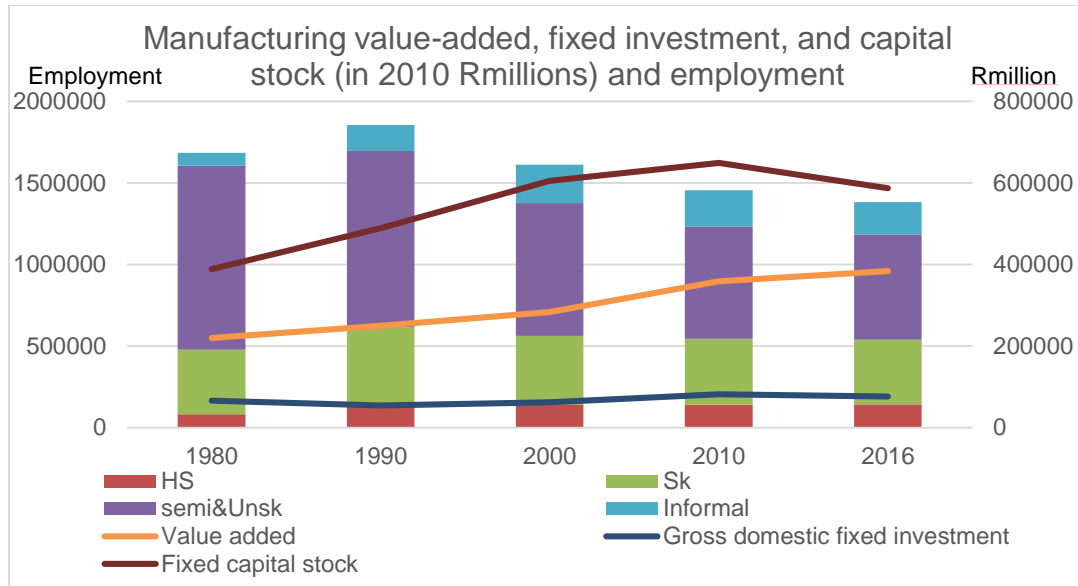
- Two sectors were mining: coal mining and other mining (other mining is dominated by the mining of platinum).
  - Two were manufacturing sectors: food, beverages and tobacco and petroleum products, chemicals, rubber and plastic.
  - One sector was waters supply, a secondary sector dominated by public water utilities
- 
- Six sectors grew more than zero percent but less than 1 percent.
    - One was a services sector: Catering and accommodation services.
    - Three sectors were manufacturing: Wood and paper; publishing and printing and furniture and other manufacturing, and transport equipment.
    - Two of these sectors were civil engineering and other construction and building construction, which are secondary sectors.
- 
- Two sectors grew at 0%.
    - Both were manufacturing sectors: Other non-metallic mineral products and Radio, TV, instruments, watches and clocks.
- 
- Five sectors had negative growth.

- Three were in manufacturing: electrical machinery and apparatus, textiles, clothing and leather, and metals, metal products, machinery and equipment.
- Two were primary sectors: gold mining and the aggregate of the broader sector agriculture, forestry and fishing

Manufacturing capital stock performed poorly with 5 sectors growing at 0% or below, these were mostly not processing subsectors of manufacturing but generally subsectors that used more labor intensive manufacturing processes with higher levels of value added. Capital stock for the 2 sectors wood and paper, publishing and printing and furniture and other manufacturing both registered very low growth of 0.2% over the 27-year period. During that period, transport equipment grew at 0.9%. The best performance in terms of growth in capital stock for the entire manufacturing sector were food, beverages and tobacco that grew 1% and petroleum products, chemicals, rubber and plastic that grew 1.5%. Both are generally more capital intensive, processing subsectors. Of the 23 sectors that grew by more than 0%, manufacturing had only 5 sectors, and the largest overall growth by a manufacturing sector was only 1.5%.

Bell et al (ibid., p. II) find for the period 1994 to 2016 that “Within manufacturing in South Africa there has been a structural regression as growth in value added has continued to be biased towards mineral and resource-based sectors.”

**Figure 0.7: Time series trends for manufacturing**



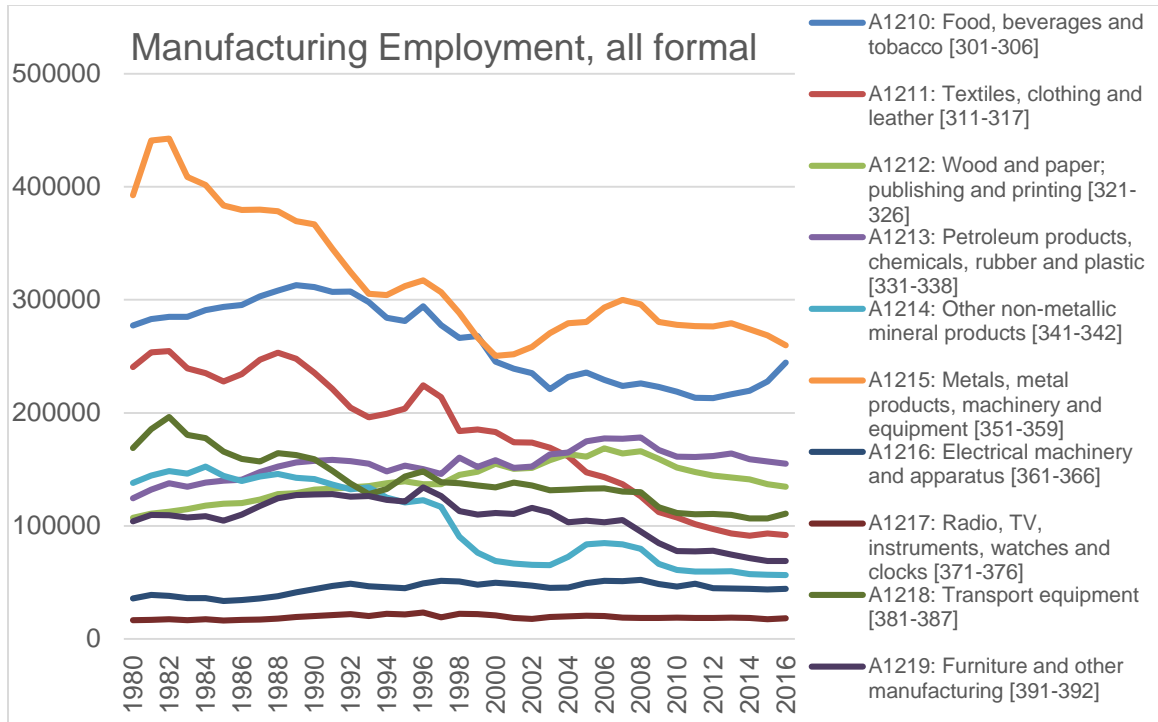
Source: Quantec, my calculations

Note: The columns (read on left hand axis) represent number of people employed by skills classification: high skilled (HS), skilled (S), skilled (Sk), semi-skilled and unskilled (semi&Unsk) and informal (Informal). The lines plots for value added, fixed capital stock and gross domestic fixed investment are read on the right hand axis in constant 2010 Rmillion)

Manufacturing had an overall decline in employment since 1990 (see fig 1.8).

However, the decline in employment reflected the regressive trend in value added noted by Bell et al (2018) and highlighted in the discussion around changes in fixed capital stock above. Fig. 1.8 shows employment trends for different manufacturing sectors and again one sees that, in general, that the more labor intensive and higher-value adding sectors have suffered the larger drops in employment.

**Figure 0.8: trend in formal employment manufacturing sectors**



Source: Quantec

Table 0.1: Comparison of manufacturing performance

	Brazil	Malaysia	South Africa	Thailand	Turkey	Middle-Income	Upper middle Income
<b>Manufacturing, value added growth, 1994-2015</b>	0.4%	5.4%	2.3%	3.9%	5.7%		
<b>Manufacturing, value added (% of GDP), 2015</b>	11.8%	22.7%	13.4%	27.6%	19.0%	20.8%	19.9%
<b>Manufacturing exports (% of merchandise exports), 2015</b>	38.0%	67.0%	49.0%	78.0%	79.0%	66.0%	68.0%
<b>Growth of exports of goods &amp; services, 1994-2015</b>	5.1%	5.1%	3.4%	6.4%	7.6%		
<b>High-tech exports (as % of manuf exports), 2015</b>	12.0%	43.0%	6.0%	21.0%	2.0%	19.0%	20.0%

Source: Adapted from Bell et al (2018) who use WDI data

*Note: Growth rates are all calculated as compound annual average growth rates*

Table 1.1 provides a comparison of manufacturing performance for selected countries and the middle and upper middle income averages. South African value added in 2015 as a percentage of GDP was 13.4%, which was much lower than the averages of middle and upper middle income countries that were both around 20%. Compound average annual growth of manufacturing value added for the period 1994 to 2016 for South Africa was lower than all the comparator countries. South Africa's manufacturing sector's share of merchandise exports in 2015 was just under half whereas the averages for middle and upper middle income countries were around two-thirds. South Africa also performed poorly in 2015 when considering high tech exports as a percentage of manufactured exports. Bell et al (ibid.) say, "Mineral and resource-based sectors continue to dominate the export basket and together account for 60% of merchandise exports." South Africa's export performance shows that its industrial structure has regressed and it has become more dependent on mining and minerals related exports.

The South African government argues that its austere macroeconomic policies have been successful. They believe that they have achieved macroeconomic stability and that this stability has allowed the economy to grow and has led to the increases in investment levels from 2002.<sup>9</sup> Above, I showed that the period of relatively high growth in GDP had been largely due to growth in consumption.

---

<sup>9</sup> The government's claim to have achieved macroeconomic stability is based on maintaining inflation within their inflation targets and reduction of the government's fiscal deficit. They ignore the continuing extraordinarily high levels of unemployment and inequality in the economy. They also ignore the volatility in the exchange rate, which has a negative impact on exports and investments because it adds to levels of uncertainty in the economy.

As I will argue, government macroeconomic policy has been partly responsible for this problematic accumulation path of the South African Economy. Rather than promote needed structural change in the economy, the government has pursued policies that support financialization and misallocation of capital toward mining and finance, rather than the types of capital accumulation that will lead to sustainable economic growth and employment generation.

## **1.2 Post-apartheid accumulation and government policy**

The poor level of accumulation in South Africa was a serious problem because it hindered further development of the country and exacerbated socio-economic problems, such as high levels of inequality, poverty and unemployment, which were a legacy of colonialism and apartheid. The democratically elected government of the post-apartheid period made increasing the level of investment in the economy a priority. However, they adopted neoliberal policies to raise the level of investment and hoped to attract more foreign direct investment, but, for reasons discussed in this dissertation, these efforts have largely failed.<sup>10</sup> The central element of this neoliberal policy approach was the Growth Employment and Redistribution (GEAR) Program.<sup>11</sup> The belief of Government was that orthodox macroeconomic policies would provide economically stable conditions for

---

<sup>10</sup> Weeks (1999) says, “The ANC government almost immediately implemented a typically ‘orthodox’ macroeconomic policy: fiscal deficit reduction through expenditure restraint and a tight monetary policy, along with rapid trade liberalisation.” Pollin et al (2006) in their assessment of South African economic policy several years later say, “The commitment to macroeconomic stringency is also part of a broader package of measures consistent with aspects of the neoliberal approach advanced by the IMF.... These other measures include liberalizing trade and capital flows and minimizing regulation of business (p.17)”

<sup>11</sup> The document *Growth, Employment and Redistribution: A Macroeconomic Strategy* was published by the Department of Finance (now called the National Treasury) in 1996.

investment. They also believed that the adoption of orthodox economic policies would gain them credibility in the eyes of potential investors and financiers as well as the International Monetary Fund (IMF) and World Bank (Pollin et al, 2006, p.17). The ANC seemed determined to convince them that upon taking on the role of ruling party, the ANC had abandoned leftist ideologies to adopt what they would see as credible, conservative economic policies.

Orthodox macroeconomic policies were accompanied by liberalization of trade and finance, including cross-border financial flows. In addition to the structural factors emphasized in this dissertation, other factors have contributed to the lack of investment. Among these, orthodox, conservative macroeconomic policies<sup>12</sup> have restricted investment. The low budget deficit targets of their neo-liberal macroeconomic policies reduced government investment in the economy, including infrastructure investment, which could have encouraged more private investment.<sup>13</sup> At the same time, policies implemented for financial liberalization and deregulation of capital markets provided a further signal to financiers that the South African government was committed to ‘credible’ policies, even though, those meant tolerating high levels of capital flight. In fact, they offered two amnesties to South Africans that illegally held money abroad as part of their process of liberalizing exchange controls (Ashman, Fine and Newman, 2010).

---

<sup>12</sup> Weeks (1999) discusses macroeconomic policy and the adoption of GEAR for the short period 1996 to 1998. He concludes, “While many factors influenced the performance of the economy during 1996-1998, there is a prima facie case that the GEAR policy package made a significant contribution to the collapse of growth in South Africa, due to its emphasis on deficit reduction (p.15).” He adds that numerous economists (some cited in his paper) predicted that the shift to GEAR would lead to a collapse in growth.

<sup>13</sup> In 2004 with the initiation of the ASGISA programme, the government indicated that they will be increasing investment in infrastructure, especially transport and freight infrastructure. This is a positive move but government remains committed to low fiscal deficits.



But this dissertation will focus on underlying factors that have led to poor levels of private accumulation in the economy. Some of these have to do with policies of the government itself. In addition to financial liberalization, government has allowed some important large South African corporations to move their primary listings to stock exchanges abroad and so become foreign companies. These corporations have not increased their investments in South Africa but have invested their capital abroad. In fact, many large South African corporations restructured during the 1990s and withdrew from downstream manufacturing while further concentrating their interests in resource-based sectors and other sectors, particularly services sectors, and increasing their holdings abroad. As a result, the economy became more concentrated and its development has regressed back to a situation where it is more dependent on its natural resources, especially, mining and minerals processing.<sup>14</sup> In line with growing global financialization of capital, the size and contribution of the South African financial sector has grown relative to manufacturing, mining and agriculture. The bloating of the financial sector has not been the result of growth of these sectors.

Many in business and government believe that the financial sector is sophisticated and that its growth is a sign of financial deepening. However, the poor rate of fixed investment calls this belief into question. This dissertation argues that, rather than promoting domestic investment, the financial sector plays an important role in the restructuring of large corporations and increased flows of capital out of the country.

---

<sup>14</sup> Roberts et al (2003) reach a similar conclusion in their discussion of corporate restructuring for a paper commissioned by the Office of the President (Government of RSA) for a 10 year review of the economy since democracy.

But apart from government policy, an important reason for the poor levels of capital accumulation in the South African economy is that the economic policies of the post-apartheid government have not adequately addressed the structural weaknesses of the economy. The development of the South African economy has been focused around the mining industry and minerals beneficiation, including the production of energy and chemicals from coal. The financial institutions that developed in the economy were closely tied to the big businesses that dominated the mining and minerals industries.

The development of the mining and minerals sector, financial institutions and infrastructure should be understood within the particular history and politics of South Africa. This particular development means that capital remained focused on extracting oligopoly rents by maintaining tight control over sectors and extractive rents from the mining and minerals processing sectors. They seemed uninterested in further industrialization of the economy by investing more into downstream manufacture of intermediate and final consumption goods. The institutions and infrastructure developed during the Twentieth Century favored investment in mining and minerals processing and seemed inadequately developed for further diversification into downstream manufacturing.

The movement of capital abroad was not a new phenomenon. South African capital has always been closely tied to international capital and since the early days of the mining industry had moved much of their profits abroad. The offshore listing of some large South African corporations and financial liberalization may have reinforced this strong relationship by increasing the ease with which capital generated in South Africa could be allocated abroad.

## **1.2 Dissertation outline**

The next chapter develops the theoretical framework for understanding investment in this dissertation. It examines mainstream and heterodox economic theories and macroeconomic models of investment to see which approach is more suitable as a framework for the analysis of poor investment and accumulation in the South African economy. It finds that mainstream models, particularly due to their treatment of uncertainty and irreversibility of investments is unsuitable for the purpose of the analysis in this dissertation and that heterodox economic approaches are helpful. The third chapter of this dissertation is a historical and institutional background of the South African economy that provides a foundation for understanding poor capital accumulation in the economy. The fourth, fifth and sixth chapters consider specific channels for allocation of capital to help explain why accumulation is poor and may remain poor unless there is a reversal of policy in South Africa.

Chapter 4 finds that the large corporations that dominated the economy have deconglomerated and restructured in a way that maintains their dominance over the economy through control and concentration of economic sectors. They have internationalized and financialized in a way that indicates that they are selectively allocating their resources and capital towards activities outside of South Africa. At the same time, the control of market capitalization of the Johannesburg Stock Exchange has shifted to institutional investors, which are associated with demands for increased shareholder value through higher short-term returns.

Chapter 5 examines capital flows into and out of South Africa and shows that these flows are not associated with increased accumulation. Instead, a large portion of the

liquidity and credit increase associated these flows seem to be allocated towards nonproductive activities. Overall, this dissertation concurs with heterodox literature that argues that uncontrolled capital flows are disruptive to the economy. Chapter six is on capital flight from South Africa and shows capital flight has been high and has diverted capital that could have supported investment out of the economy. Chapter 7 is the conclusion.

### **1.2.1 A More Detailed Outline of the Dissertation**

In Chapter 2, theories and models of investment are examined to develop a framework for understanding poor levels of investment in South Africa. The approach chosen would have to be able to deal with uncertainty and irreversibility of investment, path dependency, concentrated markets, distributional struggles and the increased role of finance within economies. Mainstream economic models such as the neoclassical, Tobin's Q, Euler Equation, New-Keynesian financing constraint, and the uncertainty and option value investment models are found to be inadequate for the task. Heterodox investment theories and models, are deemed to be more suitable for the analysis in this dissertation because they deal better with those issues. Post Keynesian economic theory and macroeconomic models that have been adapted to take account of financialization are discussed as they provide insight into the examination of financialization of the South African economy discussed in Chapters 3 and 4.

Chapter 3 provides historical and institutional background on the development of the South African economy. It draws on Fine and Rustomjee's (1996) notion of a minerals and energy complex as a system of accumulation to show that by the time of the

transition from apartheid to democracy the South African industrial base was relatively undiversified and had developed around a core of capital intensive, low-value-adding, mining and minerals economic sectors. During the 1980s there was conglomeration of many of the largest corporations. During the 1990s, when there was the transition to democracy, large-scale global corporate restructuring and increased financialization, South Africa's dominant conglomerates unbundled and restructured. The large corporations that listed offshore were the first to face pressure from the shareholder value movement but by the end of the 1990s, with the increased growth of portfolio flows into the economy domestically listed firms increasingly faced these pressures. Overall, the corporate restructuring process in South Africa was one whereby the largest corporations that had historically dominated the economy, along with a few newcomers, for example in mobile phones and information technology, divvied the economy amongst themselves focused on sector activities and market control, and over time, in line with shareholder value movement's demands for more focus on core business.

Chapter 3 also considers the reaction of big business, that had been close to the apartheid government and benefited from unjust apartheid laws, to the changes in democracy. It agrees with the approach in Heintz (2002) to include a variable that takes into account political and labor market conflict to understand poor levels of accumulation. Heintz argues that even if an investment model includes outcomes of redistributive struggles it may still suffer from omitted variable bias as investment will also be affected by political and labor conflict due to high levels of inequality. The perspective in this dissertation is that one has to understand not only inequality and the influence of related unrest on accumulation. The combined motives of big business

responding to a major political change, in a country with continued high levels of inequality where they potentially could face a significant reduction in their power, with the impact of global factors such as financialization and large-scale global corporate restructuring has to be taken into account to understand accumulation.

Chapter 4 presents some empirical evidence on financialization of nonfinancial corporations (NFCs) in South Africa and the nature of financialization since 2000. The impact of corporate restructuring was increased internationalization of the large corporations that saw them grow outside of the South African economy while maintaining tight control of economic sectors that had become even more highly concentrated within South Africa. Their control over capitalization of the Johannesburg Stock Exchange (JSE) declined while control by foreign portfolio investors and domestic institutional investors increased. A further consequence of the restructuring, internationalization and increased institutional investor control has been an intensification of financialization that has seen financial markets, particularly equities markets, become increasingly detached from the South African real economy. Much of the actual operations of the largest corporations by market capitalization now occurs outside of South Africa and there are even new entrants, for example in the property and development sector that raise capital on the JSE but do not have any operations and future plans for operations in South Africa.

Chapter 5 examines the impact of capital flows on the South African economy. It shows that liberalized capital flows are associated with macroeconomic destabilization that negatively impacts accumulation in the economy. It focuses on an approach (following Palma, 2003) that examines how capital flows have been absorbed into the

economy. It shows that the preponderance of net short-term flows to South Africa since the end of apartheid has had a negative impact on the growth path of the economy as capital flows have been directed away from productive manufacturing and services sectors.

This chapter says that the IMF has shifted their views on the use of capital controls and many countries have broken from the orthodox views to implement varied measures to manage the impact of capital flows on their economies since the global financial crisis. Notwithstanding these changes and the negative impacts of fallout from the global financial crisis on South Africa, the government has chosen to maintain a liberalized approach to capital controls, and its overall neoliberal approach to macroeconomic policy.

Chapter 6 examines capital flight from the South African economy during the 1980s and during the post-apartheid period until the global financial crisis. The study uses the residual method for estimating capital flight. It shows that capital flight has been large and that it has continued and grown in size during the post-apartheid period. I relate levels of capital flight before and after the end of apartheid to the impact that the political change would have had on big business and the wealthy who seemed to have chosen to move capital out of South Africa in greater amounts after the end of apartheid. Capital flight leaves less capital available for investment in the economy.

Chapter 7 is the conclusion. This dissertation shows that a number of the large corporations that may have contributed to addressing the structural weaknesses in the economy have instead chosen to allocate capital in a way that perpetuates poor accumulation. In essence, they have been internationalizing their operations. At the same

time, a significant share of capital has been allocated towards capital flight from the economy further exacerbating capital withdrawal from the economy and reducing domestic capital available for accumulation. Moreover, despite the government's focus on attracting more capital inflows as a development strategy, a large proportion of the increased foreign capital flows entering the economy since the end of apartheid have not increased the rate of accumulation but, instead, have been allocated towards non-productive activities and have been disruptive for the economy.

These problems in the all-important accumulation process therefore suggest that the policies of the post-apartheid government have not adequately addressed the structural weaknesses in the economy or managed to significantly improve the allocation of capital towards enhancing the rate of capital accumulation and employment generation.

Therefore, a central argument of this dissertation is that the success of the South African development project depends on the ability of the state to tackle structural weaknesses in the economy and to ensure that profits earned, especially in sectors where rents are extracted, such as finance and mining, are reinvested in downstream, value adding productive sectors.<sup>15</sup> In other words, South Africa requires policies that promote economic restructuring in a way that shifts the core of the economy away from financial services and mining and minerals related activities toward more labor intensive, downstream, value-added activities in manufacturing and associated productive services sectors.

---

<sup>15</sup> Current government economic policies are not specifically aimed at economic restructuring.



Instead, the post-apartheid government has chosen to follow neo-liberal economic policies, particularly macroeconomic and finance policies, that have allowed increased financialization of the economy and supported the withdrawal and misallocation of capital away from restructuring and investment that deepens and diversifies the productive sectors of the economy.

## CHAPTER 2

### THEORIES AND MACROECONOMETRIC MODELS OF INVESTMENT

#### 2.1 Introduction

The chapter will focus on the important area of macroeconomic theories and models of investment because the nature of accumulation in a society shapes the economic path of that society. The aim of this dissertation is not only to understand the reasons for low and declining levels of investment in South Africa and why the depth and diversity of the productive sectors in the economy is lacking. The aim is to understand accumulation (and the problems with accumulation), which is shaped by a path-dependent process through which households and businesses reproduce themselves, as a contribution to a broader discussion on how to attain the universally recognized human values, such as economic rights, inclusiveness and sustainability in South Africa.

This chapter provides a survey of macroeconomic investment theory and models to explain that key aspects inherent in heterodox macroeconomic theory are better suited to inform this study of accumulation in South Africa. The chapter begins with a discussion of mainstream macroeconomic theory and then discusses heterodox economic theory. The main differences between the mainstream and heterodox approaches focused on in this paper are related to the way in which time and institutions are treated in these economics perspectives. The main contention is that mainstream economic theory too often ignores institutions and is ahistorical. It cannot deal with path-dependence in the process of reproduction and accumulation in society. The alternative approach favored here is to consider institutions and time as related. In order to understand an economy one has to take into account how institutions function at specific historical periods.

Mainstream economics generally abstracts from time and institutions whereas the heterodox economics alternatives discussed in this paper include consideration of institutions, their history and how they operate at a specific time. The mainstream approach seems able to develop general theories capable of explaining economic outcomes across time and space. Heterodox economics, on the other hand, steers one towards an approach that requires a case by case analysis that takes time, space and institutions into account. Chapter 3 of this dissertation provides a historical and institutional account of the South African economy that draws heavily on the systems of accumulation framework and the adaptation of heterodox theory and models of investment to financialization of economies as a way to inform the discussion on accumulation.

The focus on specific time periods and spaces does not mean that heterodox economic theory cannot provide a general framework for economic analysis. In fact, it sets a good framework for understanding motives and behavior of economic actors based on an analysis informed by multidisciplinary interaction to understand dynamic, complex systems. Eichner (1978) argues that, “post-Keynesian theory is concerned with the dynamic behavior of actual economic systems. It is not limited, as neoclassical theory is, to the analysis of resource allocation under hypothetical market conditions”. Therefore, post-Keynesian economics can take into account different forms of allocation and competitive structures in an economy and attempt to be more consistent with knowledge derived from other social sciences. I would venture to say it is an aspect of economic and investment theory crucial for understanding accumulation and economic development on a case by case basis that has been neglected by mainstream economics.

Economies and markets are often treated by mainstream economists as if they are fair and neutral. The world views of dominant economic agents, such as those in large multinational corporations and financial institutions, including their attitudes towards racial and gender discrimination, religious beliefs, environmental issues, and economic security are too often absent even when income distribution is considered and reference to classes are made in economic models. The relevance of post-Keynesian and heterodox economic analysis rather than mainstream economics is that this analysis takes into account the “dynamic behavior of actual economic systems” (as Eichner, 1978 puts it) when it analyses allocation and competitive structures. The heterodox economic analysis chosen in this dissertation shows that there is ‘path dependence’ shaped by a history of institutions and affected by the beliefs and biases of people running those institutions. Ultimately, the shifting world views of economic agents and how to channel, influence and regulate economies towards positive, progressive accumulation and distributional outcomes<sup>16</sup> may be well informed by the type of economic analysis that informs this theory. It is how I endeavor to understand the macroeconomic problems related to investment in South Africa. It is a unique and original contribution to economics literature on investment and accumulation in South Africa.

The short section before the conclusion provides a discussion of how terms, such as “rents”, “rent-seeking”, “productive” and “unproductive” economic activity, are defined and also what is meant when activities are referred to as “speculative”. These are concepts that are commonly used in journalistic and academic writing that are often not defined or are allotted different definitions by different authors. This section will provide

---

<sup>16</sup> For example, such as those embedded in the *Freedom Charter* adopted by the African National Congress and the Congress Alliance in 1955.

a discussion of the definition of these terms that should clarify to readers what is meant when these terms are used in this dissertation.

## **2.2 Mainstream macroeconomic investment models**

There has been development over time of mainstream investment models where a self-conscious attempt was made to consider time, uncertainty and expectations more seriously. Over time, other aspects of mainstream models have shifted particularly with the New Keynesian variants where Keynesian concerns, such as sources of funds, were considered in these models. However, as is shown below all variants of these mainstream models do not adequately take account of uncertainty. Unfortunately, even modern mainstream investment models that drop assumptions about irreversibility of investment do not adequately deal with uncertainty. The implication is that expectation formation and the human psychology that shapes decisions in the face of uncertainty, including biases that may help explain persistent (multi-generational) economic phenomenon are inadequately addressed. These models are ahistorical in that they do not take account of historical development of institutions that shape investment decisions and some seem to be applicable to any historical time period. It is those crucial dimensions that my dissertation focuses on in the case of South African investment.

### **2.2.1 Accelerator Models**

According to Berndt (1991), the earliest investment models of aggregate investment behavior is the accelerator model, which was developed by J.M. Clark in 1917 to explain the volatility of investment expenditures. Clark's (1923) theory on the acceleration

principle that investment levels can fluctuate with consumer demand anticipated Keynes's theory on investment and business cycles. Accelerator models are generally considered "Keynesian" due to their concern with demand and the role of expectations. Accelerator models have drawn on Keynes important insight into the role of expectations and convention where there is a link between expectation of profits in the next period when there is output growth in the current and earlier periods (Mathews, 1959). Keynes view was that in an uncertain world convention shaped economic thinking. The accelerator model draws on this insight with adjustment to capital stock through investment influenced by profit expectations based on performance of output growth.

The accelerator model assumes a fixed capital to output ratio, which implies that prices, wages, tax rates and interest rates do not have a direct impact on investments in capital stock but could have indirect impacts (Berndt, 1992, p.233). Berndt (ibid.) describes the 'naïve accelerator' model as having not only a fixed capital to output ratio but also instantaneous adjustment of capital where the level of capital stock is optimally adjusted in each time period. Flexible accelerator models were developed by Goodwin (1948), Chenery (1952) and Koyck (1954) to address the unrealistic instantaneous adjustment of capital stock in the 'naïve accelerator' model. In these flexible accelerator models adjustment of capital stock is assumed to occur over several time periods.

While the accelerator models are considered Keynesian because they take into account expectations and uncertainty, they fall short because they do not include consideration of how expectations may change. Keynes's (1936) discussion of convention noted that during periods of instability, such as financial crashes, economic variables current and past performance is not a good indicator of future performance.

Uncertainty increases and convention breaks down. The accelerator models do not explicitly take into account how changes in expectation formation may affect investment decisions.

The assumption that the capital to output ratio is fixed in the accelerator model means that there can be no substitution of factors of production. Neoclassical economists, therefore, have a different criticism of the accelerator models. They argue that the primary focus of investment models should be cost related variables, such as prices, wages, tax rates and interest rates. However, empirical studies find that that cost - related variables are less significant than non-price variables, such as capacity utilization (Chirinko 1993, Clark 1979).

### **2.2.2 Neoclassical investment model**

Jorgenson's (1963) neoclassical model of investment tackles the problem that the accelerator models do not take into account costs head on. The Jorgenson model of investment takes account of cost-related variables by making the explicit basis of the neoclassical investment model optimization behavior that links the desired level of capital stock to interest rates, taxes and outputs. Investment can be thought of as the optimal adjustment of capital stock in this model. Within this framework, investors achieve the optimal level of capital stock by maximizing discounted profits over infinite time periods. However, since capital equipment is durable, firms could find themselves in a situation where they cannot sell unwanted capital equipment.

Berndt (p.p. 243-244) explains that the simplifying assumption of a perfect market for used capital goods and all inputs and outputs is a way to get around the difficulties of the present value optimization problem when taking into account

uncertainties associated with lifetime of capital equipment and input prices and demand for outputs in the future. This assumption allowed Jorgenson to see firms as renting capital to themselves during each period and the rental price was referred to as the user cost of capital. Jorgenson also assumed that adjustment from current to desired levels of capital stock were instantaneous and costless. Therefore, in the neoclassical model of investment there is no need to consider expectations and there is no uncertainty about the future because investors are concerned about optimizing in only one period,

Berndt (p.243) says that a major weakness of the neoclassical investment model is that it does not rationalize moves towards optimal capital stock. Attempts to introduce uncertainty into Jorgensonian models by including ad-hoc lags transformed Jorgenson's neoclassical model into a modified accelerator model. Gezici (2007, p.28) says that investment came to be conceived as adjustment to equilibrium in these models as their emphasis on explicit adjustment processes increased. The result of this development of neoclassical investment models is that the optimal amount of investment became a decision about the optimal speed of adjustment. Attempts to more rigorously introduce time lags into investment models maintained the assumptions introduced by Jorgenson and, therefore, were also not capable of addressing how expectations and uncertainty affect investment decisions.

### **2.2.3 Tobin's Q models**

Tobin (1969) developed an investment model where net investment depends on  $q$ , which is defined as the ratio of the market value of a business' capital assets to its replacement value. The  $q$  model of investment provides a way to consider future expectations about a firm's performance by considering how the market values a firm.



An important critique of q theory is that it assumes efficient markets when even a number of mainstream economic studies have found that financial market valuation of the firm is not a reliable measure of fundamentals of the firm. Summers (1985) and Malkiel (2003) provide reviews of literature assessing the efficient market assumption and find widespread recognition that some of the events in financial markets, such as speculative bubbles, excess volatility and mean reversion, undermine the efficient market hypothesis. Schiller (2003) provides a good review of behavioral finance critiques of the efficient market hypothesis, which shows that actual behavior of economic agents differs from the behavior of rational agents assumed to exist by proponents of the efficient market hypothesis.

#### **2.2.4 Euler Equation models**

Euler Equation models represent developments to address uncertainty through explicitly including dynamic elements and expectations in the optimization problem. Euler equation models use dynamic optimization under uncertainty, due to cost adjustments, to attempt to show a relation between investment rates over different periods. When a firm's optimization problem is considered, the intuition of the Euler equation investment model is that the marginal cost of current period investment, which includes the cost of investment goods and adjustment costs, is equal to the discounted marginal cost of postponing that investment until the next period. Therefore, firms are faced with comparing the net benefits of investing today relative to investing tomorrow.

The Euler equation investment models depend on some important assumptions, which have been challenged by non-mainstream economists. One of these important assumptions is irreversibility of investment. This assumption allows an infinite number of

future periods to be condensed into a single future period. Therefore, the Euler equation model says that a firm will be indifferent to a current period increase in capital stock only if there is an equal decrease in that firm's capital stock during the next period. This assumption of irreversibility may occur even where sunk, past investment costs are included to take account of adjustment costs in the model's specification (Chirinko, 1993).

Another important assumption is that economic agents have rational expectations. The assumption of rational expectations means that while the model's equation is written with an expectations operator, this operator may be eliminated through assuming rational expectations. Therefore, the Euler equation investment models have variables for future periods included through the expectations operator they do not actually tackle the problem of expectations and uncertainty.

### **2.2.5 New-Keynesian financing constraints models**

Berndt (1992, p.p. 239-240) describes investment models concerned with the impact of the availability of funds on investment behavior as 'cash flow' models. These cash flow models, which have internal funds determining investment, are different to the accelerator models (discussed above) where investment depends on the level of output. Since the available internal funds in a period depend on the profits of a firm in that period, cash flow models specify adjustment to optimal level of capital stock as determined by the level of profitability of a firm. Grunfeld (1960) used market value of a firm as a proxy for expected profits, implying that investment decisions are influenced by external valuation of a firm. Berndt (ibid.) says that indications of important

imperfections in capital markets cause firms to prefer internal funds rather than the risk associated with increased debt leverage. Berndt (ibid.) discusses a hierarchy of choices facing a firm that wants to invest with available internal cash as the least risky and, therefore, most favored source of finance for investment. Firms that require more than available internal funds will then choose debt that is preferred to selling equity in a firm to finance investment.<sup>17</sup> Cash flow (measured as a firm's profits after taxes plus depreciation allowances less dividends paid to shareholders) is used as a variable to indicate internal funds available for investment. More availability of cash flow may indicate the level of profitability, and therefore the likelihood that a firm will attract external funds.

The dominant mainstream theoretical perspective was represented by Modigliani and Miller (1958) who said that the type of financing used by a firm has no influence on the value of that firm, provided there is an efficient market without taxes, bankruptcy costs and asymmetric information. While cash flow investment models, and even other mainstream investment models, included variables representing liquidity of firms facing investment decisions, these models and the empirical work related to investment may not have had broad theoretical support in mainstream economics. It seems that ideas of the cash flow model had a resurgence in the 1980s when New Keynesian economists challenged key assumptions of neoclassical economic by highlighting market imperfections due to asymmetric information and imperfect contracts.

The inclusion of the cash flow variable in New Keynesian investment models indicates a scarcity of external sources of finance for investment (Fazzari, Hubbard and

---

<sup>17</sup> Myers (1984) developed the pecking order theory of finance based on a similar view that firms have a hierarchy of preferences with regard to source of financing.

Peterson, 1988). Inclusion of cash flow in investment models is different from the older cash flow models where investors had a hierarchy of preferences with regard to financing sources. Instead, for New Keynesian investment models the scarcity of finance for investment is due to asymmetric information in credit markets. In these imperfect credit markets lenders have difficulty distinguishing between investors who are borrowing for high risk and low risk projects (adverse selection problem). Lenders may also be unable to ensure that funds lent for low risk projects are not used for high risk projects (moral hazard problem) (Stiglitz and Weiss, 1981). The consequence of these asymmetric information problems is that investors borrowing for low risk projects may have to pay higher interest rates to make up for the possibility of default by high risk projects. A further consequence may be that lenders may choose to ration credit and demand higher amounts of collateral. In short, borrowers face a higher cost of capital.

There are criticisms of cash flow as a variable indicating scarcity of finance due to market imperfections (Gezici, 2007). Gezici (ibid., p.36) says, “Critics of the use of the cash flow variable as a proxy for internal funds note that since cash flow might be closely related to operating profits and therefore to the marginal product of capital, it may not be picking up the desired liquidity effect but may be proxying either an accelerator effect or information about future investment opportunities not captured by variables of fundamentals.” An alternative to cash flow as a proxy for scarcity of finance in some New Keynesian literature on investment is net worth of a firm, which is taken to indicate the attractiveness of a firm to lenders. Leverage or interest coverage variables are used as proxies for net worth (Hubbard et al, 1992).

The use of a finance constraint variable with Euler equations has been used by some New Keynesian economists to model investment.<sup>18</sup> However, the unrealistic assumptions of the Euler equation models of investment affect the reliability of this approach. For example, the assumption that investments are reversible that allows the Euler equation models to have only two periods is a serious problem. It constrains the model to investors that have financing constraints in one of the two periods of the model and ignores firms that may have financing constraints over a number of periods. The model is limited to examining only marginal changes so cannot examine non-marginal changes, such as the possibility that a firm that has a finance constraint scraps plans to invest or postpones investment to a later period.

### **2.2.6 Uncertainty and Option Value Models**

An important critique of the neoclassical and New Keynesian models outlines above is that they do not adequately deal with uncertainty and rely on assumptions of rational expectations and reversibility of investment. A relatively recent development in the literature that attempts to deal with expectations and irreversibility of fixed investment is option value theory (Dixit and Pindyck, 1994). This approach uses an analogy from financial markets where options are traded. Investors can never have complete information but may choose to wait for more information before committing to an irreversible investment. Dixit and Pindyck (1994) say:

A firm with an opportunity to invest is holding an "option" analogous to a financial call option-it has the right but not the obligation to buy an asset at some future time of its choosing. When a firm makes an irreversible investment

---

<sup>18</sup> See for example Hubbard et al (1992), Whited (1992), Gilchrist and Himmelberg (1998), and Bond & Meghir (1994).

expenditure, it exercises, or "kills," its option to invest. It gives up the possibility of waiting for new information to arrive that might affect the desirability or timing of the expenditure; it cannot disinvest should market conditions change adversely. This lost option value is an opportunity cost that must be included as part of the cost of the investment (p.3).

The treatment of uncertainty is far from adequate in option value theory. Gezici (2007) explains that uncertainty is treated as risk and is, therefore, reduced to something extra to add to the discount factor in net present value calculations in the option value models. The risk premium increases the cost of capital by a fixed amount. Therefore, an important weakness in the treatment of uncertainty is that ultimately in this model the risk premium is treated as predictable and the potential investors know the likely probability distribution associated with the risk. Gezici says, "Once the distribution is known, risk seems to have very little impact on the specification of investment models."

Option value theory seems to ignore Knight's (1921) argument that risk and uncertainty should not be conflated. Therefore, while uncertainty is a central element of option value theory the models of investment developed have all but removed uncertainty by reducing it to a measurable risk. Therefore, the option value theory model does not meet the criteria for a suitable investment model because it is of limited use in most countries where there have been political and economic changes associated with financial integration into the global economy that cause financial and economic shocks and volatility.

### **2.2.7 Conclusion (mainstream investment models)**

Keynes (1936) stresses the role of expectations and uncertainty and argues that we have to accept that we cannot predict the future. Minsky (1975) re-emphasized the notion of uncertainty into macroeconomic theory with his critique of the interpretation of Keynes's

(1937) *General Theory* by the neoclassical synthesis<sup>19</sup>. Minsky (ibid) put forward a reading of Keynes (1937) that brought back uncertainty, including ideas such as Knightian<sup>20</sup> uncertainty, which had been generally ignored by neoclassical economists and absent from the neoclassical synthesis. Crotty (1990, 1993) draws on the post-Keynesian notion ‘fundamental uncertainty’ and provides a good critique of models of investment that not only ignore uncertainty but also assume that investments are reversible. He says:

When capital goods are illiquid the future is unknowable, serious mistakes are possible and the final commitments associated with them are irreversible. Thus, capital accumulation is simultaneously necessary and dangerous for the firm itself: it is necessary to achieve growth and defend its markets and its profits from aggressive competitors, and dangerous because disappointed expectations can make it difficult or even impossible for the firm to fulfill financial commitments. (Crotty, 1993, p.7)

The criteria for assessing an investment theory for the analysis used in this dissertation has been to consider how well the theory and models of investment are suited to analyze a society where there is much uncertainty and conflict due to economic and political change, increased integration into global trade and financial markets and high levels of unemployment, poverty and inequality that exacerbate distributional conflicts. The mainstream models discussed above do not adequately consider structural factors in a society such as inequality and the presence of different classes.

At a basic level, the general Keynesian critique that neoclassical and mainstream models do not differentiate between savers and investors and owners and managers of

---

<sup>19</sup> Neoclassical synthesis was developed by Hicks, J.R. (1937). and popularized by Samuelson (1955).

<sup>20</sup> Knight (1921) distinguished between risks, which he said is often meant to refer to quantities that are measurable, and uncertainty, which is not measurable.

firms is relevant. Keynes (1936) stressed the importance of financial markets and explained that not all savings are automatically converted into investment because people who save are not necessarily the same people who invest. Therefore, not all saving may be used for investment and the level of uncertainty becomes important in affecting how much available funds are used for investment and how much will be kept liquid. Therefore, mainstream models of investment do not adequately take into account uncertainty and irreversibility and are not deemed suitable.

## **2.3 Heterodox macroeconomic models**

### **2.3.1 Introduction**

The major critique of mainstream investment theory outlined above is that all mainstream approaches do not adequately account for uncertainty and irreversibility of investments. The systematic thinking about economies in heterodox macroeconomics is shaped by the idea of fundamental or radical uncertainty and irreversibility of investment. Other key ideas within this investment theory, such as the separation of ownership and control and recognizing the difference between managers and owners in firms, are part of this systematic thinking about the economy.

For example, an important linkage in this systematic thinking about economies is between fundamental uncertainty and irreversibility of investment and the separation of ownership and control that cause managers to prefer internal sources of finance, including profits, for investment rather than external sources. In this world investment is not an automatic optimization process. Managers are conscious of the risks associated with investment in a world of fundamental uncertainty where they cannot predict future



states. Managers understand the risk to their firms and their control of those firms when future income is uncertain but they know that they will have regular repayments to creditors of a known quantity.

Keynes notion of convention and how it influences decision making when there is uncertainty and irreversibility is based on the perceptions of decision makers. There is a clear psychological element to behavior of individuals and recognition of the psychology of group behavior. Therefore, these perceptions are shaped by society and its institutions and it is worth recognizing that many of the institutions that have been developed are to help economic agents attempt to create stability in a world of fundamental uncertainty and irreversibility. This systematic heterodox thinking about society and the economy leads us to considering not only the economic aspects affecting investment but the social structures of accumulation.

It is worth quoting Crotty (1994, p.27) at length here:

The future *is* unknowable; we exist in an environment of true uncertainty. In such an environment, neoclassical theory fundamentally misspecifies agent choice. Fortunately, the price of recognition of the existence and centrality of fundamental uncertainty is not theoretical chaos as neoclassicists would have us believe. The concept of the socially constructed human agent and conventional decision making in concert with an understanding of the institutional foundations of conditional stability create a world with nondeterminist or contingent laws and tendencies, a world that can indeed be appropriated through theory. However, a theory adequate to its task must be institutionally contingent and never lose sight of the dialectical relation between uncertainty and the structures and practices we have created to try to remove its sting.

The theory of the firm that shapes post-Keynesian investment theory is different to the neo-classical models because the goal of the firm for post-Keynesian theory is more than just maximizing profits. At the center of this theory is a realization, present in the work of

Marx (1971) and Keynes (1936) (and their followers), that managers and owners of firms have different roles and interests. This realization is different to neo-classical theory of the firm where there is a conflation of these roles and interests.

Within heterodox economics, managers are salaried employees who make the actual decisions with regard to levels of risk and reward associated with decisions to grow the firm, borrow, invest, employ and overall management of the firm. While owners of stock and other financial assets issued by the firm may have oversight through boards of directors and other governance structures, their role in heterodox theory of the firm is often seen as benefiting from the profits through dividend payments and other returns on their financial assets. While neoclassical theory has an often unstated assumption that firms have manager-owners, the separation of these functions and the rewards linked to these functions are important for heterodox economics. Heterodox economists do realize that managers may own stock in the company and that their remuneration can include stock and stock options, which would make them part of the owner class. However, they separate owners and management.

Literature on financialization, discussed below, finds that managers have received a larger part of their remuneration in the form of stock-options and other profit related bonuses to align the interests of managers with owners over the past few decades (Crotty, 2003, Lazonick and O'Sullivan, 2000). The shifts in governance during the period of financialization do challenge heterodox theories of the firm (Stockhammer, 2004). However, it may make sense to maintain a separation between owners and managers at an abstract level even if their material interests have become increasingly aligned as a result of financialization. With this understanding that there is a separation of ownership

and control, heterodox theory of the firm aligns the major goals of the firm with that of managers who are active in the day to day running and long-term investment decision-making of firms. Therefore, the goals of the firm are seen as growth and acquisition of power (Lavoie, 1992).

Stockhammer (2002) explains that post-Keynesian theory of the firm was formulated during an age of managerial capitalism. He says, “Developed by Galbraith (1967) and Eichner (1976), and summarized neatly by Lavoie (1992), post-Keynesians have a well elaborated theory of the firm *in the age of managerial capitalism*, but have done little to adapt this theory to contemporary changes in corporate governance (ibid, p10).” The discussion on financialization and its influence on corporate governance below will address this important issue raised by Stockhammer (2002).

Robinson and Kaldor, who were influential in shaping post-Keynesian economic theory, were influenced by Marx’s perspective that the pursuit of profits and the compulsion to grow are associated with competitive pressures in capitalist economies. Gezici says that for post-Keynesian economics profits are the means to finance the goal of growing the firm. She says that Robinson (1962) argued that “the central mechanism of accumulation is the urge of firms to survive and grow (p.38).” She says Kaldor (1978) contributed that “the individual enterprise – for reasons first perceived by Marx – must go on expanding so as to keep its share in the market (p. xvi).” Managers have an interest in ensuring that firms survive competition from other firms and they are constrained in their ability to maintain the survival and growth of the firm by the portion of profits they can use to support the accumulation of the firm. However, they may have access to external finance to complement retained earnings from profits for their accumulation plans.

Stockhammer says that for post-Keynesian economic theory inside and outside finance is different. He explains:

This is one of the basic assertions of post-Keynesian economics that has been slowly and painfully rediscovered by neo-classical economists over the past decades after Miller and Modigliani (1958). Following the principle of increasing risk, firms are reluctant to accept high leverage rates since a failure will put the existence of the firm at risk. Banks on the other hand will take current profit and wealth as a proxy for a firm's reliability, and give credit only to firms that are already profitable (Stockhammer, 2004, p.12).

Post-Keynesians have drawn specifically from the work of Kalecki (1937) and his principle of increasing risk, which states that management will be guarded about the risks associated with external borrowing and their caution regarding external borrowing will be high when they already have external borrowing. Gezici (ibid) points out that within this Kaleckian framework, the economic conditions and the business cycle influence management's thinking on the level of external borrowing that is feasible for the firm.

During expansions when banks and financiers are willing to provide finance easily, management also expects demand for their goods and profits to be high and will increase their external borrowing. During downturns in the business cycle, financial institutions will be more cautious about lending and management of firms will also limit their exposure to external finance because their expectations with regard to demand and profitability would be negative. Stockhammer (2002) says that an important aspect of post-Keynesian theory of the firm is the growth-profit trade off. He says that while one may question the assertion that more investment hurts profits that this contention is a central aspect of post-Keynesian theory (ibid, p.13).

Crotty and Goldstein (1992) argue for a growth-safety trade-off that managers face when making investment decision. This formulation draws on the inside-outside finance and Kalecki's principle of increasing risk where managers want to limit outside borrowing. Gezici (ibid) says that the Crotty and Goldstein (1992) formulation has firm borrowing not constrained by financial market pressures but by managers' determination to maintain independence from financial market pressures. She argues that this aspect of post-Keynesian theory differs from neoclassical theory's discussion of finance constraints because management reluctance and apprehension about external finance will always be a constraint on post-Keynesian firms irrespective of financial market conditions.

At a deeper level the notions of uncertainty and irreversibility and understanding how they are linked to the creation of institutions in society leads us to consider the causes of stability and instability in economies. Crotty (1994) argues that the relation between conventional decision making and stability is dialectical. In his view "institutions can never create more than conditional stability (ibid. p.27)." Institutions as socially constructed entities are filled with contradictions and cannot find solutions to instability without creating new forms of instability. According to Crotty, "... they transform the effects of uncertainty and shift them across time rather than permanently eliminate them".

Crotty's challenge to macrotheory is that if we are to develop a theory that integrates institutional structures and conventional expectation and confidence formation we must be able to explain "... both why in this world of fundamental uncertainty there is orderly capitalism most of the time and we must explain the causes of periodic crises and crashes (ibid.)." Crotty's view in conclusion is that "The contradictory and dialectical

role played by conventional decision making and uncertainty-reducing institutions makes the pursuit of permanently effective state control of the capitalist economy through traditional macropolicy perpetually elusive (ibid).”

### **2.3.2 Demand and aggregate demand**

A key difference between mainstream and heterodox accounts of the economy is the role of prices. Prices as signals in markets are fundamental in neoclassical economics. Eichner (1978) explains that the focus on investment in post-Keynesian macroeconomics is different to the focus on price in neoclassical economics. He says, “This follows from an underlying belief that in a dynamic expanding economy (paraphrasing neoclassical terminology), the income effects produced by investment and other sources of growth far outweigh the substitution effects resulting from price movements (ibid, p12).” In other words, changes in demand, whether aggregate demand or sectoral demand, are more the result of income changes than price changes. In contrast to neoclassical theory where it is usual to assume full employment in the long-run as a way of eliminating the income effects.

Lavoie (2006) explains that “According to the principle of effective demand, the production of goods adjusts itself to the demand for goods. This principle is at the heart of all post-Keynesian approaches. The economy is therefore demand-determined, and not constrained by supply or given endowments (Lavoie, p.p.12-13).” Lavoie describes the place of investment within this thinking drawing on Shapiro (1977). He says, “This means that investment is essentially independent of saving; investment and capital accumulation are not tied to the intertemporal consumption decisions of households

(ibid)”. Sawyer (2009) argues that a key difference between heterodox and mainstream approaches is “... there are no market forces which could be relied on to propel the level of aggregate demand towards any supply-side equilibrium (or towards any other desired level of economic activity). There is a denial of the operation of relative prices to clear markets or of the real balance effect (in an endogenous money world) as the instrument of adjustment (p.25).”

Sawyer<sup>21</sup> (ibid), drawing on Kalecki, says that aggregate demand sets the level of economic activity in an economy. Aggregate demand is the sum of intended consumer demand, investment demand, government expenditure and the net trade balance. The propensity to consume depends on the source of income (wages vs profits) and investment is affected by profits. Therefore, the distribution of income between wages and profits plays a significant role in aggregate demand outcomes. Sawyer says that aggregate demand determines the level of output in the short run and long run. As a result, the level of economic activity depends on a range factors including the distribution of income.

The Kaleckian approach that has become widely drawn upon by post-Keynesian economists is derived from the widely cited paper by Bhaduri and Marglin (1990). Sawyer (2009) provides a good, short explanation of the importance of Bhaduri and Marglin’s 1990 paper. He says:

The incorporation of the idea that investment depends on profitability and capacity utilization by Bhaduri and Marglin (1990) along with the differential propensities led to the distinction which they drew between a stagnationist regime and an exhilarationist regime, now more usually referred to as wage-led or profit-led regimes. The significance of this approach is that it brings income distribution into a central role in the determination of aggregate demand and the level of economic activity. It also serves as a reminder that shifts in behavior or in structure – in this case in the differential in propensity to consume and the

---

<sup>21</sup> Note that this section is also much influenced by Sawyer (1985), *The Economics of Michal Kalecki*.

influence of profitability on investment – can have marked effects on approach to policy (p.27.).

Bhaduri and Marglin (1990) develop a synthesis of neo-Marxian and neo-Keynesian theories. They synthesize Keynesian investment theory and Marxian theory of the reserve army of unemployed and class conflict. Their stated aim was “...to release the Keynesian theory of the capitalist economy both from the stagnationist-cooperative strait jacket that has dominated Left Keynesian thought and from the marginal role that the mainstream has accorded Keynesian theory as a theory of no relevance to understanding the functioning of the capitalist economy apart from the short period” (p.153). They stress their support for the Keynesian view that that aggregate demand (AD), particularly investment demand, has an important role to play in the economy as a driving force.

Hein and Vogel (2007, p.3) say that the ‘underconsumptionist alternative of the Kaleckian model, which was introduced by Rowthorn (1981), Dutt (1984, 1987, 1994) and Amadeo (1986, 1987) assume a strong accelerator effect in the investment model. Therefore, changes in income distribution have a distinct influence on the long-run equilibrium of growth because a rise in wages would be associated with increased profits, more capacity utilization and investment and overall economic growth. Bhaduri and Marglin (1990) show that within a Kaleckian framework, different regimes of accumulation are possible.

They show how a long run view with aggregate demand and aggregate supply curves that evolve over time can be used to illustrate different accumulation regimes that take into account conflict and cooperation between the capitalist class and the workers. The power relation between capital and labor changes over time as the size of the reserve



army adjusts to demand for labor. The success of capitalists in one period where they have relatively more power over workers and expect higher profits can turn into one where their increased demand for labor reduces their power over labor, leading to a decline in expected profits.

Marglin and Badhuri (ibid) refer to the power relationship between workers and capitalist as cooperative when capital has more power over workers (and expected profits are higher), and conflictual when capital is less powerful relative to labor (and expected profits are lower).<sup>22</sup> They then consider how the conflictual and cooperative nature of the relationship between capital and labor affects expected profits and economic activity in different accumulation regimes. They argue that the IS curve could slope up or down. When the curve slopes upward an increase in AD is associated with rising profits. They call an upward sloping IS curve an exhilarationist regime. When the IS curve is downward sloping an increase in AD is associated with declining profits. They refer to the downward sloping IS curve as a stagnationist regime. They say that it is hard to separate out all the factors that influence decisions to invest based on expectations of profits and how these are formed (ibid., pp.173-4). They argue that factors of a political, social and cultural character like the state of class relations or the state of confidence in the international financial system cannot be easily separated into neat categories in theorizing how they influence investment.

Within a social structural theoretical framework of long run investment, it is not only power relations between capital and labor that is important, but as Bowles, Gordon and Weisskopf (1986) and Weisskopf (1994) argue the power of the capitalist relative to

---

<sup>22</sup> The IS curve is flatter when there is a cooperative relationship and steeper when there is a conflictual relationship between capital and labor.

the citizens of a foreign country and foreign suppliers of inputs are also important. It is not only the relationship with foreign suppliers of inputs but also the international role that the capitalists' home country government plays militarily, politically and economically in the international arena that influences the potential profitability of the capitalists. (This strand of the literature associated with the Social Structure of Accumulation and French Regulation Schools is discussed below).

### **2.3.3 Income distribution and class**

Kaleckian-based models of distribution and growth are driven by investment (not savings as in neoclassical economics), which (as discussed above) makes demand an important component of post-Keynesian macroeconomics. Hein and Vogel (2007) say, "In the models by Kaldor and Robinson, assuming full utilization of productive capacities given by the capital stock in the long run, firms' investment decisions, determined by 'animal spirits' and the expected profit rate, affect growth and functional income distribution." However, in these 'older' models the wage share is negatively related to increasing capital stock. Most Kaleckian models have a variable rate of capacity utilization in the long-run. The market power of firms and their power relative to workers influences the mark-up firms can charge and consequently the income distribution.

The valuable contribution by Bhaduri and Marglin (1990) (discussed in detail above) is one that builds on the work of Kalecki, and his colleagues such as Robinson, Kaldor and Steindl. Bhaduri and Marglin (ibid) can more readily be used for empirical analyses of regimes of growth and accumulation during a certain period in a specific country. There have been many empirical investigations of accumulation regimes

inspired by Bhaduri and Marglin. Hein and Vogel (2007) provide a comprehensive overview, including a helpful table, of empirical work applying Bhaduri and Marglin's insights to examine the link between distribution and economic growth and accumulation.

In a study for the International Labor Organization, Onaran and Galanis (2012) use the single equation estimation technique to examine distribution and growth in sixteen G20 countries<sup>23</sup>, including developing countries. It is one of the few studies of this type that include developing countries. Onaran and Galanis (2012, p. 42) find that the US, Japan, the UK, the Euro area as well as Germany, France, and Italy were developed countries that were wage-led. On the other hand, Canada and Australia, both small open economies where distribution had a large effect on net exports, were profit-led developed countries. In their sample, they find that Turkey and Korea were the only wage-led developing countries. They found that China, Mexico, Argentina, India and South Africa were profit led.<sup>24</sup> With regard to South Africa they say, "South Africa is also profit-led with a relatively high impact of distribution, which is partly related to a very low difference in the marginal propensity to consume out of profits and wages (ibid.)."

A significant result of their study is that domestic private demand is wage-led in all countries examined. They say that the reason for this result is because consumption is much more sensitive to an increase in profit share than to investment. Therefore, an

---

<sup>23</sup> They include the European Union, Germany, France, Italy, UK, US, Japan, Canada, Australia, Turkey, Mexico, South Korea (henceforth Korea), Argentina, China, India, and South Africa. Because of pre-independence data limitations for eastern European countries when they refer to the EU, they mean the 12 West European Member States of the euro area.

<sup>24</sup> Onaran and Galis (ibid) say that the strong distributional effects on exports and imports in China made it very strongly profit-led. In Mexico they find that a strong effect of profits on the level of investment and net exports made it profit led. Profits have a similar strong effect on investment and net exports in a profit led Argentina but a very weak effect on consumption. They find that the impact of distribution in India is low, even though India is profit-led.

economy is profit-led only when the effect of distribution on net exports is large enough to offset the impact of domestic demand. Onaran and Galanis (ibid) results are in line with Bowles and Boyer (1990), who pioneered the single equation technique, who found that domestic sectors in France and Germany were wage-led but results show them to be profit-led when the effects of distribution on net exports are included in the empirical analysis. Ederer and Stockhammer (2007) have a similar result for their study on France as do Hein and Vogel (2008) for Germany and France. Hein and Vogel (2007, p.1) in reference to the similar results from Bowles and Boyer (1990) and Ederer and Stockhammer (2007) say, “These studies, therefore, seem to support Bhaduri and Marglin’s (1990) theoretical conclusion that wage-led growth becomes less feasible when the effects of redistribution on foreign trade are taken into account.”

Heintz (2002) makes the case that investment models, even those that take into account distribution between profits and wages, cannot explain the low levels of investment in many developing countries. He says that political instability and distributive conflict may be important omitted variables in these models. Heintz argues that inequality could lead to distributional conflicts that increase political instability that have the effect of lowering levels of investment because they are associated with lower profit expectations and insecurity with regard to property rights. He says that distributive conflicts could lower profit expectations and affect investment rates even if actual profits do not decline. He adds that long-term unresolved distributional conflicts in a situation with very high levels of inequality could create an expectation that the institutional arrangements that allow the existing distribution would be challenged. This expectation could negatively affect investment decisions. Heintz applied an econometric investment

model that included an index for political instability and distributive conflict for South Africa from 1970 to 1993, a period with a large decline in investment. He found that the impact of political unrest and distributive conflict had a significant negative impact on the rate of fixed accumulation in South Africa for that period (ibid., p. 14). He further found that political conflict had an effect independent of the actual distributive outcome in terms of the actual profit rates. His results showed that political instability and distributive conflicts had the largest impact on the rate of investment followed by lower profit and growth rates. Heintz findings are influential on this dissertation because, as shown in Chapter 1, the levels of inequality in South Africa have actually increased and are amongst the highest globally. An analysis of investment based on a heterodox approach to investment theory should not ignore political unrest and distributive conflicts that arise from long-term high levels of inequality and unresolved conflicts over distribution.

#### **2.3.4 Structures of accumulation and regulation**

Kalecki (1943) in his discussion on the political economy of full employment provides important insight into the distinction between distributive outcomes and distributional conflicts. He argues that even when capitalists are earning profits under full employment they will reduce investment and work to undermine full employment because it threatens their power in the workplace and in society. Ultimately, the economic interests of the capitalist are not solely about earning profits but their ability to maintain a system that ensures that they are able to continue realizing profits and the stability of that system. Full employment increases the power of workers not only their bargaining power in the

workplace but also the political power of workers as they are able to build trade unions, political parties and other institutions. The expectation that full employment will reduce the stability of the current system and lead to change will become the primary concern of the capitalist. The accumulation and growth regime will depend on the stability of the underlying institutions, which are affected by distributional conflicts. Therefore, empirical work on growth and accumulation regimes, particularly when developing countries are included in the studies, seems to be missing an important discussion about the stability of social institutions underlying the regime.

Bowles, Gordon and Weisskopf (1986) define an SSA as a set of socio-economic institutions that are a historically specific expression of a capitalist mode of production. A specific capitalist economy will grow well and have relative stability during a period when an SSA is in place. However, an SSA is subject to external shocks and endogenously generated stresses eroding it and undermining its effectiveness in promoting profitability leading to a period of crisis in which political struggles develop over a new institutional structure for successful accumulation. They see history in terms of a series of the rise and decline of successive SSAs. The SSA approach helps to explain long cycles within capitalist economies drawing on Marxian theory as it considers the internal contradictions within a capitalist system and the institutions that help to maintain stability during a certain period of capitalist accumulation.

Kotz, McDonough and Reich (1994) provide a summary of the type of institutions required to maintain an SSA:

The SSA includes political and cultural institutions as well as economic ones. The institutions comprising an SSA include both domestic and international arrangements. The domestic institutions may include the state of labor-management relations; the organization of the work process; the character of

industrial organization; the role of money and banking and their relation to industry; the role of the state in the economy; the line-up of political parties; the state of race and gender relations; and the character of the dominant culture and ideology. The international institutions may concern the trade, investment, monetary-financial, and political environments.

The evolution of economies and institutional arrangements over time can be analyzed through the SSA approach. In this sense the approach draws on the old intuitionists such as Veblen (1904) and Commons (1934). The historical studies also draw on Marxian tradition of global analysis such as Hilferding (1980) and Lenin's (1910) discussions of finance capital and imperialism in the global economy.

The SSA approach has made an important contribution to economic analysis by making this analysis less economic through contextualizing economic activities and outcomes taking into account 'non-economic' factors such as institutions and arrangements. It reinforces the perspective that each economic space and historical period has to be studied taking into account the specific 'economic' and 'non-economic' factors present. Through examining economies and their institutions, the SSA approach shows that economic crises do not represent the end of capitalism. The SSA approach showed that capitalism is a resilient system that goes through changes over time where different institutional arrangements or SSA's support economic expansion, erode and are replaced by a new SSA.<sup>25</sup>

The approach by the French Regulation School is very similar to the SSA School in explaining expansion and crises in capitalist economies by examining the role of institutions that provide periods of stability to support accumulation and economic

---

<sup>25</sup> See the contributions in the edited volume by McDonough, Kotz and Reich (1994) for more in-depth discussion of SSAs and discussions of SSAs in different countries

expansion. The definition of a regulation regime by Michel Aglietta, one of the founders of the school, is given in the following quote:

The essential idea of *A Theory of Capitalist Regulation* is that the dynamism of capital represents an enormous productive potential but that it is also a blind force. It does not contain a self-limiting mechanism of its own, nor is it guided in a direction that would enable it to fulfil the capitalists' dream of perpetual accumulation. To put it another way, capitalism has the inherent ability to mobilize human energy and transform it into growth, but it does not have the capacity to convert the clash of individual interests into a coherent global system." (Aglietta 1998, p.49)

Boyer (2005) says that the goal of the regulation approach is to explain the emergence and subsequent crisis of modes of development in different periods. A mode of development consists of both the 'regime of accumulation' and the 'mode of regulation'. The notion of a 'regime of accumulation' is shown to be central to Post Keynesian/Kaleckian theories of growth and investment discussed above. Boyer (ibid) says that the 'mode of regulation' is the institutions, norms and practices that provide for the long-run reproduction of a regime of accumulation. The addition of 'mode of regulation' to the 'regime of accumulation' analyses seems to be an important contribution that leads to analyses that is more rooted in the historical and institutional context being examined. And, as mentioned above adds another dimension to models that take into account distribution and Kalecki's differentiation between distributional outcomes and distributional struggles.

Heintz (2002b) makes the case that an empirical study of investment in South Africa provides empirical support for the argument that there was an apartheid structure of accumulation. His empirical analysis answered a criticism by Natrass (1992) to previous studies (Gelb, 1991; Morris and Padayachee, 1988) that used a SSA-type



analysis to explain the increase in growth in South Africa during the 1950s and 1960s and the subsequent decline from the 1970s. Natrass criticized those studies as not empirically grounded. Heintz's empirical analysis to determine the variables that influenced the rate of investment indicated that political instability was the main cause of the crisis of accumulation, independent of other variables such as profitability (ibid. p. 320). He argues that these results are consistent with an SSA analysis of the performance of the economy during the apartheid period.

The SSA and French Regulation approaches have had an important intellectual influence on the approach taken in this dissertation. The background to the South African economy in Chapter 3 draws much on the work of Fine and Rustomjee (1996) who introduced the notion of a minerals and energy complex (MEC) as the system of accumulation in South Africa. This MEC system of accumulation centered around development of mining, minerals core sectors and sectors with close linkages shaped by the relationships between the apartheid state and English and Afrikaner big business within the oppressive institutions of the colonial and apartheid period. The merit of Fine and Rustomjee's (ibid.) study is that it provides a theoretical framework similar to the US SSA and the French regulation schools that provides insight into specific social institutions and the dynamics within a capitalist system that explains historical periods of growth and decline. The MEC analysis is also grounded in a concrete detailed explication of the business groups and state enterprises, formations and policies and their interactions in shaping the South Africa economy, within a shifting global economy, through to the early-1990s. Their analysis ends right at the time when the apartheid system is ending

and six conglomerates, four family controlled business groups and 2 by large financial corporations, that dominated the economy were restructuring.

In Chapters 3 and 4, I work to contribute to building on this understanding of the changes to the system of accumulation in South Africa in the context of restructuring of the conglomerates and the global and domestic changes related to financialization. This analysis and its focus on accumulation is grounded within the heterodox approach described in this theoretical literature survey. While this dissertation does not include a macroeconomic model of investment the insights in the theory and the developments in the investment models that include consideration of financialization discussed in this chapter have in no small way influenced the qualitative and quantitative work in this dissertation.

### **2.3.5 Economic growth path and path dependency**

Eichner (1978) argues that an essential element of post-Keynesian theory is that it is formulated in a way where even if there are no changes in determinants or parameters, the economic system is seen as expanding (at an uneven pace) “along a secular growth path”. This post-Keynesian view of the economic system in constant motion is very different to the neoclassical economics, be it partial or general equilibrium, where the system comes to rest at some point. Sawyer provides further insight into this aspect of heterodox economics by explaining the interdependence of demand and supply and path dependency.

Sawyer (2009) says that mainstream economics has a central proposition that at both the microeconomic and macroeconomic levels of supply and demand are

independent. Mainstream economics separates the factors influencing supply and demand and it is only through the price mechanism that that supply and demand curves interact (ibid., p.27). He says that mainstream economics follows the classical dichotomy and uses the word 'natural' to reinforce the separation between the real sectors of the economy from the monetary sectors Friedman (1968, following Wicksell).

Sawyer (2009) says "The interdependence of demand and supply is closely related with path dependency (ibid.)." Sawyer explains that the term 'path dependency' refers to two aspects of heterodox economic thought different to neoclassical economics. The first aspect he mentions is that the economic growth path of a country is "built up step by step" not predetermined as in neoclassical growth theory (including endogenous growth theory). He compares this 'step by step' process to evolution. The second aspect he mentions is that heterodox economists would use the term 'path dependency' instead of 'hysteresis', which indicates a shift from one equilibrium to another even if that equilibrium is influenced by the path the economy has taken.

Sawyer (2009) says it is common place to observe that the level of economic activity is demand determined in the short-run, and that fluctuations in the level of economic activity arise from fluctuations in demand. The Kaleckian analysis views significance of the role of aggregate demand as more extensive than that. Specifically, the lack of unambiguous market based forces leading the level of demand into line with available supply is one basic tenet of a Kaleckian analysis and hence inadequate aggregate demand can be a long term phenomenon. Further, the evolution of the supply potential of the economy in terms of the available work force, the size of the capital and the growth of factor productivity are all strongly influenced by the time path of the level of demand. This

is most evident for the growth of the capital stock, where investment expenditure is strongly influenced by the level of economic activity, but it would also be relevant for the evolution of the effective labour force.

There are various paths that an economy can take and as Sawyer puts it, “by which the path of demand opens up future supply.... (ibid., p.27)” There is a specific relevance to this understanding of demand and supply for thinking about a New Economic Theory that moves beyond a fixation on gross domestic product but considers the evolution of economies towards sustainability, economic security and welfare. Sawyer (2009) argues that three mechanisms seem more prominent in this process. He says that current demand influences investment that in turn adds to the stock of capital. He adds that this thinking applies not only to physical capital but to investments in areas such as education and health as well. These areas of demand and the response of suppliers have a huge impact on future issues related to sustainability in terms of livelihoods and the environment.

The second way in which demand affects the growth path is through its influence on the labor force and how “people are drawn into or pushed out of the effective labor supply through demand (ibid., p.28)”. Sawyer explains that there are many influences on labor supply, including demographics, migration and changes in social attitudes but argues that “... the evolution of the labor force cannot be understood without reference to demand” (ibid.). The third path Sawyer highlights is linked to the operation of a Verdoorn law type of effect where there is ‘learning by doing’. Demand has an effect because it affects the level of economic activity that affects the ‘learning by doing’ and related productivity growth.

The discussion of the central role of monetary institutions and financialization below relates the economic growth path and the crucial role of demand to the functioning of the financial system. Widespread financial liberalization, integration of global financial markets and the resultant shift from an industrial capitalism to a financialized capitalism has had a huge impact on corporate governance and structure as well as the operation of global value chains. These changes in the financial system influences not only the levels of demand but the way in which suppliers, private and public, respond to demand.

### **2.3.6 Credit, monetary institutions and endogenous money**

Eichner's (1978) lists as another essential element of post-Keynesian theory the view of the economic system as one where advanced credit and monetary institutions play a fundamental role in the dynamic processes being analyzed. Heterodox economists now use the term "endogenous money" to describe the process by which money is created within the private sector when banks provide credit through the creation of deposits (Moore, 1988, Pollin, 1991). Sawyer says that Kalecki (1971), Kaldor (1970), and Robinson (1956) amongst others had intrinsically used what could be described as an endogenous money approach in their work.

In the endogenous money approach the central bank does not establish the supply of money. Sawyer (2009) says that the central bank's key policy interest rate governs the terms on which it provides 'base money' (M0) to the banking system. The stock of money is affected by demand for money and this stock can be increased through demand for credit or diminished through repayment of loans. Therefore, the expansion of the

stock of money is determined by the meeting of demand for loans by the banks and the associated expansion of bank deposits. Minsky (1986) says that the financial sector is predisposed to cause bubbles and crashes in an economy. Therefore, endogenous money is related to instability and crises are endogenous to capitalist economies.

Sawyer (2009) adds to the heterodox understanding of investment by showing a link between the endogenous money approach and path dependency in the economic growth path by considering the manner in which banks provide loans and the way that credit is rationed. The way in which banks provide loans will affect economic growth and their discrimination in credit rationing will influence the growth path. Sawyer mentions credit rationing discrimination with regard to gender and ethnicity. This credit rationing could also be influenced by perspectives with regard to economic security, welfare and environmental sustainability. This discrimination can also be between sectors of the economy, favoring of high tech and not low tech industries and choices to lend to big or small businesses. This perspective on the role of finance in relation to investment and path dependency is interesting because it takes the discussion of path dependency beyond a focus on technology and the reason for growth in some sectors of the economy and not others. It adds an important (and in my view neglected) dimension where path dependency of an economy includes the effects of world views of those who dominate the financial institutions, including issues central to formulating an approach to understanding accumulation in South Africa that takes into account, equality and racial and gender biases. The structural influence of banks and other financial institutions on an economy can be seen in who and what they choose to finance and the terms on which they provide finance.

### 2.3.7 Market structure

Heterodox economists see the economy as dominated by large corporations. Eichner (1978) says that for post-Keynesian theory the role of multinational corporations and trade unions is essential. Eichner points out that prices in most markets are not the result of competition but are administered. Sawyer (2009) says, “Enterprises make interrelated decisions on price, output supply and employment offers in light of the demand conditions which they face and their own productive capacity (ibid, p.3). He says wages are based on considerations about efficiency wages or are the outcome of collective bargaining. In other words, prices and wages become parameters in determining the rate of savings by businesses and households and revenue inflows and discretionary income of the public sector.

Steindl (1952) raises the possibility of stagnation even with healthy profits in an economic structure where large corporations dominate the economy. In a sense, from a theoretical perspective, South Africa’s poor levels of accumulation can be seen as a combination of Steindl’s (1952) reason for stagnation, which is that oligopolies received a larger share of national income but did not increase domestic investment levels, and the impact of neo-liberal globalization and financialization, where these dominant corporations moved their profits into financial activities and abroad out of the South African economy. Steindl (1976, p. xv) provides a neat summary of his key points of his major work *Maturity and Stagnation in American Capitalism* (1952) with regard to the effect of dominance of oligopolistic firms as opposed to competitive conditions in an economy. He says, “Oligopoly brings about a maldistribution of funds by shifting profits

to those industries which are reluctant to use them.... And, adds that the result of this maldistribution of funds is that “Oligopoly leads to a decline in the degree of utilization, either by a tendency to increase mark-ups or by a rigidity of the mark-up in face of a decline in investment”.

Steindl’s later works considers the increasingly powerful role of finance and the shift in approach to macroeconomic policy. Bhaduri and Steindl (1985) refers to the contribution of policies advocated by the financial sector such as restrictive monetary and fiscal policies as important contributors to stagnation. Steindl (1989) points to the impact of financialization when he says that stagnation is exacerbated by the growth in financial investments relative to investments in the real sector as corporations and those who run them become more interested in putting their capital into financial ventures rather than investing in production.

My analysis of the South African economy draws on Steindl’s evolving view of an oligopoly dominated economy and its tendency toward stagnation. In addition, I also consider in other chapters of this dissertation, the impact of short-term capital inflows and increased extension of credit to the private sector, including households, on the South African economy. The impact on the South African economy, particularly during the period leading up to the global financial crisis, was a temporary and unsustainable increase in GDP growth and investment. To use Steindl’s turn of phrase, the large corporations or oligopolists in the South African economy have been ‘reluctant’ to use their profits to invest in the productive sector in South Africa.



## **2.3.8 Financialization**

### **2.3.8.1 How can financialization contribute to a better understanding of accumulation in South Africa**

An analysis of accumulation in South Africa during the post-apartheid period will have to integrate relevant older economic theoretical perspectives into a framework capable of analyzing what many commentators have identified as an important shift in the capitalist system. The change is from an industrial capitalism to a financialized capitalism where increased integration of trade and financial markets globally and widespread liberalization of financial markets have been described as a process of financialization. Epstein (2005) provides a broad definition of financialization, he says, “Financialization means the increasing role of financial motives, financial markets, financial actors and financial institutions in the operation of the domestic and international economies (p. 3)”.

Authors such as Dumenil and Levy (2004) and Epstein and Jayadev (2005) focus on the increasing share of income that goes towards the financial sector and the increasing level of financial investment.<sup>26</sup> Froud et al (2001, 2007) consider the impact of the rise of finance and the importance of financial investments on different parts of society, including households, labor, and corporations. They use the term coupon pool capitalism to describe the changes to the capitalist system where economic agents, i.e. households and firms, interact through sale and ownership of financial assets (Froud et al 2001).

Financialization has also occurred through the liberalization of cross-border capital flows. The movement of particularly short-term capital has had a significant impact on investment choices, accumulation of capital and the shape of economic growth

---

<sup>26</sup> See also Krippner (2002) and Crotty (2003).

paths. At the same time, there is much evidence that liberalization of short-term capital flows (often referred to as hot money) and increased use of financial instruments such as derivatives and securitized debt increased volatility and systemic risks in financial markets and increased macroeconomic fragility. (see for e.g., Grabel, 2001, Prasad et al, 2003, Stiglitz, 2004). Overall, the influence of financial liberalization and increased cross-border capital flows has been to shift capital away from investment towards financial markets. Investors avoided long-term, irreversible fixed investments because of the already mentioned increased volatility and risk associated with increased speculative foreign short-term flows. The bubbles in financial markets associated with short-term capital inflows attracted money towards financial market speculation away from fixed, productive sector investments. Short-term flows were not conducive to long-term fixed investments.<sup>27</sup>

There are different interpretations in the literature over whether financialization is a strategy for redistributing income to a rentier class. Palma (2009) using Foucault argues that neo-liberalism and financialization are ‘technologies’ of redistributing wealth and income away from the rest of society to rentiers and the one percent who now control a larger share of global wealth. Lapavistas (2009) says that there is no single rentier social layer. He says we have to understand how industry, finance and workers have changed in current capitalism. In other words, we have all become rentiers within the neoliberal system. Neo-liberal policies have led to reduction of welfare and state provision of basic services, including health and education. As a result, financialization takes the form

---

<sup>27</sup> See Mohamed (2011) for my analysis of the South African economy taking into account financialization and the deleterious impact of uncontrolled short-term capital movements on the country’s economic growth path.

where households have increasingly had to engage in financial activities to provide these basic services and for risk mitigation through acquisition of private insurance and pension services that had been previously provided by welfare states. The increasing role and influence of institutional investors, such as insurance and pension providers, is also relevant in this discussion. Fine (2009) says that as with Lenin's shorthand that 'Imperialism is the monopoly stage of capitalism' one can say that 'neo-liberalism is the financialized stage'.

Much of the economic and sociological literature on financialization has focused on the effects on the capitalist system and capitalist economies at a macro level and on corporations, particularly non-financial corporations, and households at a micro level. The development of a framework for understanding accumulation, therefore, should expand towards understanding the process of neo-liberal globalization as one where there is increased power of the financial sector, more investment in financial assets and a larger share of income going to finance. At the same time, financialization touches most societies and different groups in societies. The impact of financialization on capital has led to a larger role for institutional investors and the shareholder value movement and a change in corporate governance towards maximizing shareholder value and a move away from patient to impatient capital.

Froud et al (2000) explain that the notion of shareholder value has become hugely influential in corporate decision making. Lazonick and O' Sullivan (2000) argue that shareholder value has become the new ideology for corporate governance. They argue that the result of this new approach where increasing shareholder value is the primary goal of corporate governance leads to a shift in the behavior of corporate managers

towards focusing on short-term profits. They describe this shift as a move from patient to impatient capital. The incentives on management (such as stock options) have also directed them towards the goal of increasing shareholder value.

The use of the term financialization as applied to non-financial corporations and the analysis of macroeconomic investment theory in this paper is much influenced by Crotty's (2003) insights from Keynes, Marx, and Schumpeter to provide an important theoretical contribution that helps us to understand the change in senior management behavior and corporate structure from the 'Golden Age' to the neo-liberal era. Crotty draws on Lazonick and O' Sullivan's (2000) idea that there has been a shift from patient to impatient capital in large non-financial corporations (NFCs). He says "... there has been a shift in the beliefs and behavior of financial agents, from an implicit acceptance of the Chandlerian view of the large NFC as an integrated, coherent combination of relatively illiquid real assets assembled to pursue long-term growth and innovation, to a "financial" conception in which the NFC is seen as a 'portfolio' of liquid subunits that home-office management must continually restructure to maximize the stock price at every point in time (Crotty, 2003, p.17)." Crotty (2003) also says that top management's pay was linked to the long-term performance of their business whereas in the neo-liberal era it is linked to short-term movements in the price of their firm's stock. With financialization, there has been a shift where the interest of top management is aligned with the interests of shareholders, especially institutional investors, against the interests of other stakeholders in the firm. For example labor is an important stakeholder that is

negatively affected because downsizing is a common strategy used to increase short-term profitability of firms.<sup>28</sup>

Both Froud et al (2001) and Crotty (2003) refer to the fact that non-financial corporations currently face competition and other factors that put downward pressure on their profits at a time when the financial markets demand higher returns on their investment. Crotty calls this problem the “neo-liberal paradox”. The concept of the neo-liberal paradox provides important insights into the behavior of large businesses today. Crotty (2003) uses Marxian and Schumpeterian theory of competition to complement Chandler’s historical analysis of US corporations to show that non-financial industries in core sectors had enjoyed corespective competition due to oligopolistic market conditions that allowed for relatively high and stable profits. Crotty’s important contribution is to explain the end of corespective competition and the era of high, stable profits during the neo-liberal era. He says:

There are numerous economic and political conditions required to ensure that core oligopolies act in a manner that helps create and reproduce a healthy economy. These conditions include a strong regulatory apparatus, sustained high employment, a labor-friendly government, appropriate tax policies, and strong unions in core industries. In the neoliberal era, by way of contrast, deregulation, increasingly open borders, and the end of a commitment by government to pursue high growth through Keynesian macro policies have destroyed the conditions necessary for corespective behavior.

A result of the breakdown of corespective competition is an end of the oligopolistic market arrangement for the large, core sector NFCs. Crotty describes a process where

---

<sup>28</sup> Froud et al (2001) explain that in coupon pool capitalism the differences within the working class are deepened because some workers would own stocks or be invested in financial assets while other workers would not have stocks. Workers who keep their jobs (or have permanent jobs) and own stocks benefit from downsizing while those who lose their jobs (or employment security and benefits) and do not own stock suffer from the downsizing.

there has been an outbreak of cut-throat competition, the destruction of secure oligopoly rents, overinvestment and the creation of excess capacity and too rapid introduction of innovation.<sup>29</sup> He describes this process as one of coercive competition where large companies with large capital investments and sunk costs are forced to invest to remain competitive. Since profits have declined, these NFCs have less access to retained earnings for the coerced investments and are forced to turn to financial markets. As a result, financial agents gain more power over the NFCs. The shareholder value maximization approach to corporate governance and the alignment of interests of senior management with shareholders reinforces the short-term focus of the NFCs.

Nolan (2003), while not explicitly referring to financialization, also has an important contribution to make towards understanding how the shareholder value movement has influenced global corporate restructuring. He explains the increased concentration of global markets since the 1990s. He says that the internationalization and restructuring of firms during the 1990s set off a huge increase in mergers and acquisition activity. According to Nolan (2003) "...in the 1990s, the global business revolution produced an unprecedented concentration of business power in large corporations headquartered in high income countries".

Nolan (2003) says that demands of institutional investors for increased shareholder value forced large global corporations to restructure. The investors believed that firms that focused on their core business provided higher levels of shareholder value. They believed that these corporations had more focused management. They also believed

---

<sup>29</sup> Crotty argues that the end of co-competitive competition has led to increased pressure on corporations to bring new products and innovations to market quicker. As a result, the technology rents associated with innovations and new technologies have been reduced as the period for extracting these rents have contracted.

that brand recognition and dominance was especially important in globalized markets. A focus on core business meant that the large share of a firm's total cost that was spent on global marketing campaigns would be more effectively spent if they focused on promoting fewer global brands. Therefore, an increasing number of global core or lead businesses restructured to narrow their business activities.

Millberg (2008) argues that financialization has affected global commodity chains (GCCs) and the structure of these linkages. He says that rentiers in developed country financial markets through their power as shareholders in lead firms in GCCs have influenced the functioning of GCCs by pressuring them for higher short-term returns. This pressure has led lead firms to use their dominance in GCCs to extract high returns by squeezing firms in the rest of the GCCs. Millberg argues that even though there has been a large amount of offshoring that has shifted production out of the US, US investors have still managed to achieve high returns through investing in the US-based corporations that dominate GCCs.

The discussions of financialization over the past few decades, referred to above, explain a complex process that has been uneven across different countries related to the social, political and economic role and influence of finance. It shows an intersection of the effects of liberalization of financial markets in individual economies and the effects of increased integration of global financial markets. It also shows how the ideology of corporate governance has shifted towards shareholder value and how that has shifted NFCs towards increasing the share of income and profits they receive from financial activities and speculation in financial markets. It has also considered the restructuring of global corporate structure and power relations within global value chains. These

developments provide us with much insight into the current conditions influencing investment and investment decisions at a macroeconomic and microeconomic level. Overall, the increased power of institutional investors and the shareholder value movement have created what Crotty (2003) describes as the neoliberal paradox for NFCs as they face increased competition in product markets while they face increased pressure from shareholders for higher short-term returns. The next section discusses how economic analysis using formal economic models incorporates financialization into those models. It builds on the theoretical discussion of heterodox economic models and macroeconomic investment models in earlier sections.

#### **2.3.8.2 Investment models and financialization**

The earlier discussion of heterodox economics and macroeconomic models aimed to show that these models were different to neoclassical economic models because they are not ahistorical and they take into account aspects of institutions and their evolution. I pointed out that the influence of Keynes and Kalecki has been important in shaping economic theory where irreversibility of investment and fundamental uncertainty were not assumed away and where distribution and distributional struggles shaped outcomes. The role of demand, the competitive structure of the economy, the importance of path dependency and the recognition that capitalist economies are monetary economies were all central to shaping the theory and the conception of economic models of investment based on that theory.

The discussion below is about the use by heterodox economists of econometric models to quantify the impact of financialization on investment. As discussed above



these models draw on key insights of post-Keynesian economics with regard to distribution and distributive struggles, the growth and profit trade-off and the preference for internal finance (i.e. Kalecki's (1937) 'principle of increasing risk'. The influence of Kalecki (1954) and the macroeconomic model based on his work by Bhaduri and Marglin (1990) is clear. Most of the models of investment that take account of financialization are adaptations of the Bhaduri and Marglin investment model. In a sense, many of these investment models that include financialization as part of their explanation build on the theory and techniques developed in the studies that apply Bhaduri and Marglin's model to see whether countries have profit led or wage led accumulation regimes.

One of the earliest macroeconomic investment models with econometric estimations that included an independent variable for financialization was Stockhammer (2004). As mentioned above, Stockhammer pointed out that the post-Keynesian model was developed in the age of managerial capitalism. Drawing on the arguments about financialization from authors such as Crotty (2003) and Froud et al (2000), he argues for a change in post-Keynesian theory of the firm. This updated theory would have to recognize that rise of the shareholder value movement has led to a shift in the behavior of management towards a stronger preference for profits than growth and the long-term survival of the firm. In this new era there will be low investment at the firm level. Stockhammer's model incorporates the shift in NFCs as a result of financialization that management show a preference for profits when there is a choice between growth and profits for the firm.

Stockhammer (2004) develops a post-Keynesian macroeconomic investment model with accumulation as the dependent variable as a function of capacity utilization, profit

share, the relative cost of capital, which are variables commonly used in estimating investment, and he adds a variable that he calls rentiers share of non-financial business (RSNF) to represent financialization. RSNF is calculated by taking the interest and dividend income of the non-financial business sector as a proportion of the firm's value added. Stockhammer explains his investment model:

This specification is inspired by the reformulation of post-Keynesian investment function by Marglin and Bhaduri (1990), but contains the neo-classical approach (pioneered by Jorgensen 1963) as a special case. Keynesians argue for the importance demand effects and the role of profits –as source of internal finance and as proxy for profit expectations –, whereas neo-classical economists emphasize the role of the relative cost of capital and accept the role of output. (Stockhammer, 2004, p.19)

Stockhammer estimates the model for Germany, France the UK and USA. Stockhammer finds that the growing shareholder value orientation of firms has a negative impact on accumulation for the USA and France and a small impact on the UK but he finds no impact on Germany. He interprets the positive results for France and the USA as a result of these countries having been more financialized. He says that the lack of impact on Germany was because the process had started late in Germany. He interprets his regression results for the low impact of financialization on accumulation on the UK as a result of poor levels of accumulation in the UK.

Studies after Stockhammer's (2004) paper included other independent variables to represent financialization. Hein (2007) includes the ratio of debt to capital, Ryoo and Skott (2008) utilize debt to capital and retained earnings to capital. Arestis et al (2012) add variables to take specific account of convention and uncertainty, including deviations between current rates and 'normal' rates in financial and real markets, including, exchange rates, the oil price and the stock market index. Van Treeck (2008) divides total

profits of a firm into retained earnings, dividend payments and interest payments. He finds that the rentier's share, which includes interest and dividend payments, is significantly negatively related to accumulation. The extraction of interest and dividend payments by the rentier reduces the amount available for retained earnings and thus a firm's internal funds available for fixed investment.

Hein (2012) builds a Kaleckian stock-flow consistent model of investment that allows him to consider the short and medium-term with respect to capacity utilization rates, profits and capital accumulation. His model also takes account of stability of the financial structure of the corporate sector. It builds on the accumulation regimes approach and finds that with growing shareholder power there are three possible new macroeconomic regimes associated with financialization: 'finance led growth', 'profits without investment' and 'contractive' regimes' (Hein, *ibid*, p.4). He shows that only the 'finance-led growth regime' yields a stable financial structure of the corporate sector and that the other two are unstable (*ibid*). He says, "... it should be noted that these regimes require a very special parameter constellation: only weak negative effects of increasing shareholder power on management's animal spirits, a low rentier's propensity to save, a low profit share, a low elasticity of investment with respect to distributed profits and internal funds, and a high responsiveness with regard to capital utilization (*ibid*, p63)."

He finds that the unstable constellations are more realistic. Hein says that there may be some policies and other forces in the economy that could possibly increase stability of the 'profits without investment' and 'contractive' regimes' but that his modelling results show considerable potential medium run instability arising out of corporate financial structure and capital accumulation (*ibid*).

Fazzari and Mott (1986) is an important paper where a post-Keynesian microeconomic model that includes variables for liquidity and sales is used to compare their independent effects on firms' investment decisions. Their model takes into account capacity utilization (proxied by sales), the availability of internal finance and interest payments. Ndikumana (1999) builds on Fazzari and Mott's (ibid) use of a flow measure for interest payments to represent a constraint on cash flow by introducing both stock and flow variables to examine the effect of a firm's debt on investment. Ndikumana's results were that both stock and flow measures of debt had a significant and negative effect on debt. Fazzari and Mott (1986) and Ndikumana (1999) do not include financial revenues, which represent financialization, in their microeconomic investment models. There are a few (three that I am aware of) studies of financialization that build on Fazzari and Mott (1986) and Ndikumana (1999) that use post-Keynesian microeconomic models: Orhangazi (2008), Demir (2009) and Onaran and Tori (2016).

Orhangazi (2008) using data at a firm level for US manufacturing firms in a dynamic panel estimation approach finds that when larger firms benefit from financial profits these profits 'crowd out' accumulation of fixed capital. His study used financial income and payments and the debt level as independent variables. He finds that smaller firms may benefit from increases in financial income indicating that financial income plays a dual role of crowding out and supplementing internal finance. Orhangazi's (2008) study claimed to be the only study that took into account microeconomic factors in studying financialization at the time. Demir (2009) also uses microeconomic analysis for Argentina, Mexico and Turkey that takes into account the different rates of return of financial and fixed assets in a portfolio choice

model. Demir includes independent variables that proxy for risk and uncertainty, credit extended by the banking sector and real GDP. Demir finds that higher returns to financial assets are negative for fixed investment.

Onaran and Tori (2016) use a dynamic panel data model to look at the effects of financialization on firm-level investment in UK based publicly listed NFCs. They define financialization as increased reliance on external finance and increased dependence on financial activities rather than fixed investments and argue that this form of financialization had an important role in reducing fixed investment in NFCs in the UK. Similar to Orhangazi's study of the US they find a dual role for finance where rentier income in the form of dividends and interest payments reduce internal finance for investment and there is *crowding* out of fixed investment because of increased financial investments.

#### **2.4 Towards a definition of rent, rent-seeking, rentiers, and productive and unproductive activities**

Rents (economic rents) and speculation are key concepts underlying the discussion of accumulation and economic performance in this dissertation. Related to these terms is the idea that some economic activities are productive and others are unproductive. Terms such as “rents”, “productive” and “unproductive”, and “speculation” (or speculative are generally broadly defined. Since there are many ways these terms are used and defined in economics literature, the aim here is to clarify the use of these terms in this dissertation through discussing the preferred definitions or approach to defining these terms.

Mainstream economics defines economic rents as returns to individuals or firms above what they would earn in a competitive market (Khan, 2000, p. 5). Khan (ibid.)

says, “But since the competitive market of theory does not usually exist, a more useful definition is an income which is higher than the minimum which an individual or firm would have accepted given alternative opportunities.” He adds that by this definition a very wide range of incomes in the real world would have that characteristic. He explains, “Rents include not just monopoly profits, but also subsidies and transfers organized through the political mechanism, illegal transfers organized by private mafias, short-term super-profits made by innovators before competitors imitate their innovations and so on (ibid.).” Within this broad definition of rents not all rents are negative. Some rents may be extracted through illegal means but a great many are earned legally. Some rents have the negative connotation associated with rents extracted through firms maintaining monopoly or oligopoly control of markets. Other rents have positive connotations as they are associated with additional incomes earned from innovation and technological advancements.

An individual firm may earn several different rents related to the production of a product or line of similar products. They may earn rents as a result of monopoly or oligopolistic domination of the market or because they benefit from monopolization of an innovative production process or introduction of new technology. They may earn rents related to their ownership and/or control over a certain property or location. At the same time, they may earn rents related to government policies and regulations. They may earn rents because they receive support in terms of industrial policy or government programs to support innovation, such as subsidies, tax incentives and government provision of support through state agencies and development finance institutions. They may earn rents because they have licenses to be involved in certain activities or they may have special

access to certain locations, such as ports or other transport infrastructure and inputs. They may earn rents because they are allowed to pollute and mistreat and endanger their workers and so externalize costs associated with their economic activities.

The main rents referred to in this dissertation are rents related to corporate control of markets (monopoly and oligopoly rents). The political economy approach in this dissertation to contextualize accumulation within South African economic history that emphasizes evolution of institutions and systems of accumulation will also link the extraction of rents to power and influence of large corporations with regard to the state and the regulatory environment. This power allowed large corporations not only to impose barriers to entry and assert power in markets but also to shape the formation and regulation of new and existing markets. Chapter 3 will discuss how the state and large South African corporations, both public and private, developed the mining and finance industries and other economic sectors and how they dominated, shaped and ultimately divided up economic sectors and markets amongst themselves. Therefore, these large corporations did not benefit only from rents extracted due to control over market share but benefited from most of the rents described above.

The existence of rents means that there is an incentive for rent-seeking. Rent seeking could consist of illegal activities such as corruption (bribery) and coercion as well as legal activities such as lobbying and advertising. Clearly, issues of influence and power mean that there is a gray area between legal and illegal activities. Mainstream economists initially aimed to show that state intervention in the economy created opportunities for rents and that rent-seeking were additional costs to the economy related to these state interventions (Krueger, 1974, Buchanan, 1980).

This dissertation prefers the approach of Khan who defines rent seeking as “activities which seek to create, maintain or change the rights and institutions on which particular rents are based (ibid., p. 6).” He acknowledges that this type of definition of rent-seeking can describe a wide range of social activities. He adds that almost all institutional change involves creating or destroying rents. His view is that a large part of distributive conflicts involves access to rents. For Khan, understanding rent seeking provides a framework for incorporating theories of institutional change, state performance and the political economy of distributive conflicts. Therefore, an important function of a developmental state would be to manage rents. Judicious management of rents involves supporting the creation and maintenance of rents that enhance well-being and economic goals while destroying rents that reduce well-being and achievement of economic goals.

In addition to Khan’s approach to rent-seeking, the analyses in this dissertation also draws on the work of Epstein who discusses the growing influence and estimates the rise of finance and rentiers during the period of neo-liberal liberalization of financial markets (see Epstein, 2010, Epstein and Power, 2003, and Epstein and Jayadev, 2005). The rentiers extract rents because the growing power and influence of finance has created the conditions for rentiers to influence regulation and institutions as well as market formation that allow them to “...mold economic policies and structure in their interest (Epstein and Jayadev, p. 1.)” This approach draws on work of economists such as Keynes (1936) and Hilferding (1910) that considered the role of finance and rentiers in the development of capitalism.



An earlier discussion of rents, which included the classical economists' perspective of rents related to ownership of land, natural resources and banking. Hudson (2012) says that many classical economists, including Smith and Marx, aimed to reduce the power of landlords and bankers to extract rents and interests, which they saw as a legacy of feudalism. These rents added to the costs of the industrial capitalists. This insight points to the distinction between productive and unproductive activities (and the real and financial sectors) where those extracting rents and do not contribute to increasing the capacity to produce in the economy are seen as unproductive. This dissertation will use this broad definition of productive and unproductive economic sectors when discussing investment and the allocation of capital in the economy. Within this view, the distinction made by Keynes (1936) between financial institutions and productive enterprises is used where the activities and investments by rentiers to increase financial returns that do not increase productive or real sector outputs are seen as speculative while the investments of productive enterprises are seen as productive.

Epstein and Habbard (2013) say that the narrow, most commonly used definition of speculation refers to placing a bet on the short-term change in the price of a commodity or financial asset. The definition of speculation used in this dissertation is the broader definition, which Epstein and Habbard say is any socially unproductive financial activity. In this sense speculation does not refer to only short-term financial speculation but to any activity for which "... social utility to the real economy is close to zero" (ibid., p.p. 330-333)

## 2.5 Conclusion

This chapter has provided a broad survey of the macroeconomic literature on theory and macroeconomic models of investment. It argues that models in the neoclassical tradition (including new-Keynesian theory) are generally inadequate for the purposes of the historical and institutional framework used to analyze accumulation in South Africa in this dissertation. The mainstream models abstract from time and are, therefore, unable to adequately take into account uncertainty and expectation formation that are key considerations for investment. The mainstream theories and models generally ignore the path-dependence of accumulation and the development path in a society. They also do not adequately consider institutions, how they evolve over time and contribute to changes in systems of accumulation.

This chapter argues that heterodox macroeconomic models that draw on a post-Keynesian perspective provide a better framework for the purposes of this dissertation because of the treatment of space, time and issues related to expectation formation and uncertainty. The new theoretical framework requires a structural approach to economic analysis that takes into account the realities of a certain economy and time period. Therefore, within this new framework, macroeconomic theories should be developed in conjunction with information and knowledge from other academic disciplines. Heterodox economic theory further provides us with a framework that draws on the social structure of accumulation and the French regulation schools for understanding how capitalist economies change over time and shift from one form of system of accumulation or regulation to another. It considers the shift from an industrialized capitalism to the current financialized phase of capitalism and shows how heterodox theory and models are adapting to take this important global change into account.

Unfortunately, none of the heterodox models adapted to changes with regard to financialization have built on Heintz's (2002) investment model that included a consideration of political unrest and distributive struggles. As Heintz points out, the effects of inequality that lead to political and distributive conflicts has an impact on investment choices that may be independent from distributive outcomes. While this dissertation does not include an empirical model the analysis draws heavily on heterodox economic theory and models and their adaptations with regard to the changes related to financialization while also taking account of Heintz (2002, 2002b) that politics and class conflict matters for accumulation. As Kotz (2017, p. 539) remarks, "Capitalism is not just an economic system. It is a form of society, with an economic aspect and also important political and cultural/ideological institutions that are necessary for its reproduction."

## **CHAPTER 3**

### **HISTORICAL BACKGROUND**

#### **3.1 Introduction**

This chapter offers a historical and institutional background of the South African economy that will provide a foundation for understanding poor capital accumulation in the economy. This background will help readers better understand the next three chapters dealing with specific aspects of capital and accumulation in South Africa that point to a framework of suggested policy proposals to address poor capital accumulation. This background will explain how important historical factors in the development of the economy continue to hinder investment in sectors that would further diversify the economy and deepen industrialization. The historical factors to be discussed include:

- high levels of concentration in the economy;
- strong linkages between mining and finance;
- the close relationship of South African capital with international capital;
- political and economic contests between Afrikaners and English-capital;
- the focus of the state on minerals processing and energy industries;
- the orientation of the financial sector; and
- the resulting structure of the economy, including infrastructure and institutions.

In addition, this background will attempt to show how recent policy decisions by government and capital allocation decisions by big business were very important obstacles to further industrial development. In short, this chapter will attempt to explain current poor accumulation performance by providing a historical and institutional

explanation for the development of the structural weaknesses of the economy and how recent business and policy choices exacerbated these structural weaknesses.

In order to understand poor investment and job creation performance in the economy during the first two decades of the post-apartheid period one has to understand the history of the development of the South African economy and the dominant role played by large mining and financial corporations in the economy. Chandler's (1990) argument about the central role played by big business in shaping a country's development trajectory and global competitiveness are very applicable to South Africa. Chandler highlights the important role of the internal organizational structure of big business and cooperation or competition between big businesses as important factors affecting how a country develops. His arguments about the interaction and cooperation of big businesses affecting the global competitiveness of a nation are particularly applicable to South Africa where the relationship between English and Afrikaner big business, and those of the state, has had a fundamental impact on the shape and structure of the economy (see for example, Fine and Rustomjee, 1996; O'Meara, 1984).

In addition to the role of big business, the enormous impact of political changes in South Africa, including the changing power relations between capital and labor, have played an important part in shaping the economy. These factors will be considered within the context of major changes in the global economy. History of the development of South African industrialization provides insight into the close relationship between South African big business and international capital. Understanding the external and internal forces influencing South Africa's industrialization as well as the role of the colonial and

apartheid states help explain the continued concentration of economic activity in certain sectors such as finance, mining and minerals processing.

The structure of the economy that developed over the past century and a half posed specific difficulties for dealing with the structural problems of the economy. Business and state worked together during the colonial and apartheid eras to suppress the development of skills of black workers. The legacy of colonialism and apartheid as well as mistakes during the post-apartheid era has caused a serious shortage of skilled workers.

While the economy has fairly well developed infrastructure and modern economic institutions, there may be inadequate infrastructure and institutions to support industrial deepening because the economy had not adequately diversified out of the core mining and minerals processing sectors of the economy. The dominant South African corporations chose to restructure and further internationalize during the first two decades of the post-apartheid period. As a result, allocation of capital towards diversification out of the mining, minerals processing and related sectors into downstream manufacturing has been very limited instead there has been deindustrialization.<sup>30</sup> Close links between the mining industry and financial institutions were shaped over the past century and a half (Innes, 1984 and Kubicek, 1979). The powerful corporations that dominated the mining and minerals processing sectors were mining-finance houses with close links with domestic, international and state-owned financial institutions. The larger South African

---

<sup>30</sup> South African Minister of Trade and Industry Dr Rob Davies with reference to the post-apartheid period comments that “The industrial structure of South Africa has changed remarkably little, especially in the context of major global change. Indeed, there has been a hollowing out of industrial capabilities, which can be characterised as premature deindustrialisation.” (See Minister Davies’s Foreword in Bell et al, 2018.)

banks were either subsidiaries of English banks, such as Standard and Barclays (with close ties to the mining houses) or were owned by Afrikaner capital (Mohamed, 2014). The corporations that dominated the mining industry, such as the Anglo American Corporation, directly invested in building the financial sector after World War II (Innes, 1984). State owned financial institutions and the largest state owned enterprises were focused on minerals processing and energy industries. Therefore, the role and orientation of the South African financial sector was predominantly towards mining, minerals processing and related industries during the colonial and apartheid eras. In addition, for most of this period, the South African banks were more focused on short-term lending and promoting speculative activities rather than long-term investment (Roux, 1991). To make matters worse, the banks largely ignored black businesses and retail customers until the post-apartheid period.

Besides the structural problems of the economy there are other important reasons that contributed towards allocation decisions of capital not to invest in deepening South African industrialization. For example, the huge political changes since the end of apartheid, including the changing power relation between capital and labor.<sup>31</sup> Another important reason is change in the global economy, such as increased globalization of trade and finance and, as discussed below, financialization of the global and South African economy, over the past three or four decades.

---

<sup>31</sup> Terreblanche (2002) makes a convincing argument about how white South African business cooperated with the apartheid government and had a negative response to democratic rule by a government elected by a black majority. Von Holdt (2003 and Webster and Omar (2003) show how labor market reforms that changed the power relationship between white capital and black labor led to changes in business, such as increased casualization of labor and more out-sourcing and contracting. I argue later that capital flight and withdrawal from manufacturing should be added to those business changes.

The rest of this chapter will provide a relatively detailed outline of the development of the economy and how the structural weaknesses in the economy emerged. A historical account of the development of the South African economy and its institutions is provided.

First, I draw on the work of Innes (1984) to discuss the development of mining-finance houses that quickly grew to dominate the economy and had close links with international capital. I then draw on the work of Fine and Rustomjee (1996) to discuss the development of the minerals and energy complex (MEC) to explain how the structural weaknesses in the economy developed and the important role of the state and English and Afrikaner capital in these developments. The work of O' Meara (1983), Gelb (1991), Nattrass and Ardington (1990) and Terreblanche (2002) also provided important insights into the history of South African economy. The final section explains the important changes in the international economy since the 1970s and considers how these changes consolidated the power of the corporations of the MEC during the 1980s and 1990s. The final section is original work on the South African economy. I draw on many of the insights of numerous heterodox economists about important changes in the global economy since the 1970s and attempt to analyze how these changes affected South Africa. I specifically attempt to analyze how the South African economy with its economic structural problems and the major corporations adapted to the major changes in the global economy since the 1970s.

### **3.2 The development of mining and interpenetration with international capital**

South Africa has been shaped by over 350 years of colonial domination of indigenous communities and apartheid. The main influences on the structure of the economy since



the inception of colonial domination would take shape with the discovery of diamonds during the 1830s. Colonial-era economic power was consolidated by the groups that came to dominate both gold and diamond mining. Business empires that continue to dominate the economy were formed during this period. The British Empire would go to war with the Zuid Afrikaanse Republiek (the South African War 1899 to 1902) to consolidate this power and to ensure that the wealth generated in their South African colony remained within the empire. South Africa's enduring role as a supplier of raw materials in the global economy was forged within the British Empire and secured by a war that lasted more than 3 years. The relationship between English capital (the big businesses aligned to the British Empire) and the Afrikaner nationalist movement including business, political parties and later the apartheid state, continued to have an enormous influence on the development of the economy after the South African War. Fine and Rustonjee (1996) show how this relationship affected the development the economy and contributed to its structural weaknesses still present today.

Fine and Rustonjee (1996) provide a convincing account of the historical development of the structural problems affecting the economy today through explaining how economic structures and institutions emerged in the economy. Their explanation for why there has not been adequate diversification into downstream manufacturing activities in South Africa considerably helps one understand continued lack of downstream industrial development and poor levels accumulation in the post-apartheid period.

They develop the idea that a minerals and energy complex (MEC) lies at the core of the economy. The importance of the concept of an MEC for this dissertation is that it provides a historical outline of the political and economic factors that shaped the

evolution of the South African economy. The MEC is a “core set of industrial sectors which exhibit very strong linkages with each other and relatively weaker linkages with other sectors.... (Fine and Rustomjee, 1996, p. 91).” The name MEC is misleading because it gives the impression that the authors focused on the mining, minerals and energy sectors and ignored other sectors. The title makes it sound as if they ignored the role of finance or the state. However, Fine and Rustomjee’s account does not ignore other sectors. They say that the mining and energy sector, the financial system and the economic role of the state “... are bound together through the functioning of the MEC (p.10).” Fine and Rustomjee acknowledge the central role of finance and say that it is part of the MEC. However, since their study is on industrial development and industrial policy they tend not to give adequate attention to the financial sector. My account of the close relationship between South African capital and international capital and my attempt to show how changes in the international financial system since the 1970s affected South Africa should help to fill this gap (which is a general gap in the South African literature) as an original contribution to the relatively small political-economy literature on financialization<sup>32</sup> and corporate restructuring in South Africa.<sup>33</sup>

Fine and Rustomjee make a convincing empirical case for considering the South African economy in terms of MEC and non-MEC sectors rather than using conventional industrial classification categories. This distinction between MEC and non-MEC sectors

---

<sup>32</sup> Ben Fine, co-author of Fine and Rustomjee (1996), Samantha Ashman and Susan Newman (see for example Ashman, Fine and Newman, 2010) have been amongst the small number of significant contributors to the literature on financialization of the South African economy.

<sup>33</sup> Fine and Rustomjee’s (1996) account also does not adequately deal with the important role of the struggle by workers in South Africa against apartheid and apartheid workplace practices in affecting industrial development in South Africa. Unfortunately, because of space limitations, this dissertation will also inadequately deal with in this important aspect of South Africa’s economic development.

is important for understanding the structural weaknesses in the economy referred to in this dissertation. The conventional view of South Africa's industrial development is that manufacturing (secondary sector) had overtaken mining (the largest share of the primary sector) before the end of WWII and that it was the major sector in the economy until 2000 when the services sector increased its contribution to the economy.<sup>34</sup> Fine and Rustomjee's argument that the traditional classification of industries into primary and secondary or mining and manufacturing sectors obscures the actual structure of the economy is a central part of the analysis used in this dissertation. They argue that industrial processes and services (including financial services) that are closely linked to the mining industry should be categorized as part of the MEC.<sup>35</sup> They provide empirical data to show that the MEC accounts for most investment and growth in the economy and downstream sectors have not been adequately developed.

Fine and Rustomjee extend the notion of the MEC to describe it as a system of accumulation that gave and continues to "give rise to a much wider range of economic, as well as of political and social phenomena. They argue that, "the MEC is not to be seen merely as a core set of industries and institutions but also as a system of accumulation and one that has varied over time" (p.10). They provide a historical description of South Africa's industrialization to show the development and operation of the MEC as a system of accumulation and to explain why big business has limited their diversification out of

---

<sup>34</sup> Fine and Rustomjee (1996) provide a comprehensive discussion of mainstream and other accounts of South Africa's industrialization. I will not repeat their comprehensive list of references here.

<sup>35</sup> For example, they argue that first and second stage minerals beneficiation, which often occurs at the mines, which is categorized as manufacturing, should be included in the MEC. They also include the energy sector in the MEC because it includes electricity generation, which is predominantly produced by processing coal (and generation is often at the mines), and gas from coal production (by Sasol, which own coal mines that supply inputs). They include much of the chemicals sector in the MEC because a very large part of the chemicals produced in the country are byproducts of the gas from coal process.

the MEC. Central to their explanation of why big business did not adequately diversify into downstream industries are political factors. One of the most important political factors is the important influence of the competition for economic power between English capital and the Afrikaner nationalist movement and the eventual partial erosion of the distinction between English and Afrikaner capital.<sup>36</sup> This competition meant that the Afrikaner nationalist movement embarked on a process of developing large corporations, especially financial institutions, able to compete with English capital. The result was oligopolistic control not only over the MEC but also many other sectors. The structure of big business corporations that dominate the economy today was influenced by the relationship between English capital and the Afrikaner nationalist movement. In addition, many investment choices that contributed to the structure of the economy, which are still present today, were influenced by the competition and increasing integration of English capital and the Afrikaner nationalist movement.<sup>37</sup>

A consequence of these developments was that the powerful groups remained focused on their holdings in core MEC areas of activity. The giant conglomerates that grew out of the mining houses were able to use their financial and managerial strengths to invest in large energy intensive projects with long lead times.<sup>38</sup> The support from the apartheid state with the development of the National Finance Corporation (NFC) that

---

<sup>36</sup> The competition between English and Afrikaner capital was partly eroded by cooperation between the Apartheid state and English capital to make huge investments in infrastructure and mines to develop the Orange Free State Gold Fields.

<sup>37</sup> For example, the dominant role of finance today can be linked back to the decision by the Afrikaner nationalist movement to challenge the dominance of English capital by setting up Afrikaner controlled financial institutions to allocate capital towards building stronger Afrikaner businesses.

<sup>38</sup> See for example, Innes (1984) description of Anglo American's development of the Highveld Steel and Vanadium Corporation and their push to build a dominant presence in international specialized steel markets.

took in intermediated deposits towards government and business finance that replaced the deposit of these funds in London. In this way, mining finance houses, particularly Anglo American Corporation could draw access long-term towards developing the Orange Free State Gold Fields without relying solely on private capital or finance from Britain (Ashman et al, 2012).<sup>39</sup> The mining finance houses invested a part of their huge profits from the Orange Free State gold mines in building minerals processing sectors that drew on South Africa's global strength in mining of a range of minerals.

By the 1970s South Africa's big businesses had significantly reduced their investments in South Africa. During the 1970s, the state continued to play a major role in bolstering the MEC through direct investments in new electricity generation, expansion of gas from coal by building Sasol II and Sasol III (leading the way to build the chemicals and plastics industry). Fine and Rustomjee (ibid.) show that there were serious weaknesses with industrial policy in South Africa during the apartheid period.<sup>40</sup> They argue that opportunities for greater industrial diversification and competitiveness arising from large state investments were squandered (ibid., p.p. 176-8). Opportunities to promote coordination of state and private enterprises were wasted. Successful coordination could have built competitiveness of South African industry by taking advantages of the economies of scale and scope that coordination could have achieved.<sup>41</sup>

---

<sup>39</sup> The apartheid state through the NFC benefited as well once the Free State Gold Fields started making big profits and directed some of the funds towards large-scale investment in energy with expansion of Eskom and the development of Sasol to become an even larger business presence within the MEC.

<sup>40</sup> An important contribution by Fine and Rustomjee is to show that the apartheid government did not have an import substitution industrialization policy, which is a common mistake in much analyses of South Africa's industrialization. They argue that most import substitution was completed by the 1940s. They convincingly show that widespread tariff protection was not part of a coherent strategy or policy.

<sup>41</sup> An example of poor industrial strategy provided by Fine and Rustomjee (1996) are the missed opportunities from the huge state investment in Sasol II and Sasol III for building international

The end of the Bretton-Woods arrangements that pegged gold at \$35 an ounce and the spike in oil and energy prices during the 1970s were a huge incentive for further expansion of gold and energy production in South Africa that shifted attention and capital away from downstream and diversified industrial investments. The state led expansion in energy from coal through to electricity and the massive Sasol II and III expansions to convert coal into oil, which also expanded the chemicals sector further. The large investments in electricity supported the expansion of manufacturing linked to core MEC sectors with the building of aluminum, platinum and titanium smelters (Ashman et al, 2012, p. 7.).

By the early-1980s, most of the major projects of the MEC-linked sectors were completed and large-scale state investment ended. Fine and Rustomjee argue, “Since there was no structural or institutional basis laid down to diversify into non-MEC sectors, the latter declined according to the fortunes of the MEC, except for some subsectors driven by military and mega-project expenditure, whose buoyancy was prolonged until the late 1980s” (p. 174).

Nitzan and Bichler (2001) and Terreblanche (2002) argue that the high levels of profitability of the conglomerates during the 1980s reinforced their support of the apartheid government and led them to help bolster the economy against international economic isolation by buying up the businesses of the divesting multinational corporations. The success of economic sanctions and the apartheid government’s use of

---

competitiveness and increased industrial diversity in the chemicals industry (p178). They add that the 1993 privatization of Sasol, whose stock is now largely owned by different financial institutions, has further undermined potential for coordination in the South African chemicals industry.

capital controls meant that much capital remained within South Africa and was used for further concentration and conglomeration and further expansion of the financial sector.

### **3.3 Changes in the international financial system and financialization of South African corporations**

Financialization has occurred as a result of changes to the global financial system following widespread financial deregulation, including that of cross-border financial flows, since the 1970s. The effect on South African economy and the responses of South African capital to these changes have not been adequately addressed in the economics literature on South Africa. This section of the dissertation will address this gap in the literature in order to explain why industrialization in the economy did not deepen through diversification into downstream manufacturing. The attempt to understand the impact of changes in the global economy and financial system on the South African economy and the response of South African capital to these changes provides valuable background for the next three chapters. Changes in the international environment during the 1980s and 1990s led to changes in corporate structure in South Africa because these global changes had an enormous effect on how capital was accumulated and allocated. While being part of a heinous system of racial oppression and ruthless exploitation of black workers, South African capital has always been highly integrated with international capital and seems to have been influenced by or followed the major changes and trends in international western capital.

### **3.3.1 Domestic financial deregulation and financial sector growth in 1980s**

There was significant decline in South African investment levels during the 1980s. The investments in large-scale MEC projects by the state and private sector had ended. There was an escalation of political and worker resistance to apartheid and the apartheid workplace. There was a debt crisis in 1985 linked to a rapid increase in short-term foreign bank lending to South Africa, especially after US banks stopped lending to Latin American countries that had already been affected by debt crises. At the same time, foreign companies were disinvesting because of pressure from the international anti-apartheid movement. As a result, the 1980s was a period of the consolidation of conglomerate power in South Africa. The deregulation of the financial sector influenced South Africa's conglomeration process.

Conglomerates receive income from dividends through their ownership of their operating subsidiaries. By definition they manage a portfolio of companies. The implications of conglomeration are well explained by Crotty (2002) in his discussion of US conglomeration of industry during the 1980s. He explains that conglomeration was associated with a "rise of the financial or portfolio conception of the nonfinancial corporation in financial markets". He says that there was a change in management style in the US where nonfinancial firms would be seen as a "bundle of assets" that could be bought or sold or broken up depending on its short-term rate of return in a way that augments the portfolio of holdings (p.p. 14-16).

South Africa already had strong financial management of non-financial corporations through the mining-finance houses, the preponderance of pyramid companies, and large mutual companies. It was easy for the rise of a "portfolio conception of nonfinancial corporations" described by Crotty to take hold in South



Africa. However, developments in corporate restructuring in South Africa were different from the US because of the high level of concentration in a much smaller SA economy where the high profits of gold and diamond mining were important for asserting ownership and control over conglomerates.

During the 1980s, there seems to have been a move toward a portfolio approach to firms but this change in perception by management led to a new way for the powerful corporations to come to an arrangement about how they would divide up the South African economy and maintain dominance in their respective areas of operation.<sup>42</sup> This management change was accompanied by predatory behavior where large corporations either bought up or caused the demise of new independent firms that seemed promising (Lewis, 1991). The conglomerates also bought up the assets of the many companies that disinvested from the South African economy in the 1980s. The role of financial institutions in this arrangement was to be involved in merger and acquisition activity and to facilitate the buying and selling of assets rather than support long-term productive investments.

The six conglomerates that came to dominate the South African economy during the 1980s developed from mining groups and insurance corporations.<sup>43</sup> Their ownership

---

<sup>42</sup> David Lewis (1995) in his chapter “Markets, ownership and manufacturing performance” for the book *Improving Manufacturing Performance in South Africa: The Report of the Industrial Strategy Project* said that his research found “widespread collusion” in South Africa’s oligopolistic markets (p.141). He also pointed out that single firm dominance was ubiquitous and concluded that oligopolies colluded in sharing markets (p.p. 141-144). He referred to the term ‘conglomerate forbearance’ where a conglomerate would not allow one of its subsidiaries to enter a market niche already dominated by another conglomerate group.

<sup>43</sup> These conglomerates were, listed in terms of their dominance in the economy, the Anglo American Corporation, Sanlam, SA Mutual, Rembrandt, Anglovaal and Liberty Life. Lewis (1991) uses the term ‘axes of capital’ (introduced by Rustomjee, 1991) to describe the conglomerates that operated across different sectors of the economy from finance, to mining and manufacturing through to retailing. Fine and Rustomjee (1996) also use Rustomjee’s (1991) term axes of capital.

of financial institutions like merchant banks facilitated their diversification of ownership. By the 1980s these conglomerates had acquired most of the major mining and manufacturing businesses in the country.<sup>44</sup> Financial deregulation during the 1980s led to much acquisition activity within the financial sector by the conglomerates.

Lewis (1991) complained about the weak regulatory environment in financial markets with reference to the role private sector conglomerates and long term life insurers played in the allocation of capital in South Africa. He pointed out that by the beginning of the 1990s life insurers were playing an important role in allocation of capital in South Africa and that their conservative investment criteria shored up the strength of the blue chip conglomerates that dominated the economy. His view with regard to these conglomerates and the allocation of capital was that South Africa had the worst of all possible worlds. He said, “The overwhelming power of these conglomerates and the character of the regulatory environment inhibits the market mechanism from operating 'against' them - that is, an operating subsidiary of one of the South African conglomerates is effectively immune from hostile takeover, the ultimate market sanction; on the other hand, a successful manufacturer outside of the conglomerate fold is persistently subject to a predatory conglomerate, a threat which, if the British experience is anything to go by, substantially inhibits long-term investment (Lewis, 1991, p. 39).”

There was also a process of concentration in the financial sector as a result of deregulation of the banks. From the mid-1980s the banks were no longer bound by any previous credit and interest rate ceilings. The apartheid government, influenced by the

---

<sup>44</sup> Fine and Rustomjee (1996) say that from the 1980s conglomerate power over the economy, reinforced through simultaneous control of the financial sector, seems to extend to all activities in mining, manufacturing and financial activities. They add, “This is specific, probably unique, to South Africa”

growing hegemony of neo-liberal economic thinking, also started moves towards market oriented financial markets by terminating the Register of Cooperation, which limited competition between the banks in 1983. This deregulation led to building societies having to compete against banks.

I explain in Mohamed (2014) that, “The deregulation of banks included removal of activity constraints of the banks and the demutualization of building societies.” The Financial Institutions Amendment Act, No. 106 of 1985 allowed for the deregulation of the financial sector as recommended by the De Kock Commission. This commission took the position that regulation of the South African financial sector led to inefficiencies that negatively affected the South African economy (Singleton and Verhoef, 2010). At the same time, pressure on international banks (which were active only in corporate banking) to disinvest from South Africa had many successes during the 1980s. For example, Standard Chartered, ABN Amro and Barclays disinvested their holding during the 1980s.<sup>45</sup> A result of the 1980s deregulation was concentration of the South African banking sector with ownership centralized into the conglomerates. The financial sector’s contribution to the economy has grown significantly since the 1980s. The 1980s was a period when the profits in gold mining increased as the gold price rose rapidly. At the same time, the major corporations were reluctant to invest in downstream manufacturing and instead used their financial muscle to consolidate their market power.<sup>46</sup>

---

<sup>45</sup> The domestic conglomerates bought many of these interests for bargain basement prices.

<sup>46</sup> The growth of Japan and German manufacturing during the post-war period increased competition in global manufacturing and despite trade protection may have discouraged large South African corporations from investing in downstream manufacturing during the 1970s and 1980s.

An unfortunate aspect of South African capital's close ties with international capital was that their main influences have been British and US financial capital. As a result, the close relationship between the financial sector and the real sector even when they were part of the same conglomerate did not support long-term investment in industry.<sup>47</sup> Instead, the South African banks were more interested in creating financial services. They have promoted speculation rather than productive investment (Roux, 1991, p.2). The South African banking system was more like that of Britain and the US than Germany or Japan. The banks in the German and Japanese economies provided a large share of capital for corporate investment. These banks took an active interest in the investments they financed and worked with the borrowers to ensure success of the investment. Roux said that South African banks were modeled on the British banking system. He said, "... banks are primarily confined to short-term lending and money market activity. The stock exchange ... is assigned the dominant role within the capital market" (p.11).<sup>48</sup>

### **3.3.2 Financialization, restructuring and international integration of SA big business during the 1990s**

The apartheid government freed political prisoners, unbanned organizations of the liberation movement and started negotiations for the establishment of democracy in South Africa in 1990. Democracy was the major change in South Africa and many in big

---

<sup>47</sup> The large South African corporations have depended on retained earnings and equities markets for finance rather than borrowing from the banks.

<sup>48</sup> Lewis (1991) also referred to the effects of the "Anglo-American market-based capital system" on performance of the South African economy and declining investment and called for a change in philosophy around finance.

business were uncomfortable with the transition.<sup>49</sup> The change in government was accompanied by massive restructuring of the South African corporate sector. The transition to democracy was one reason for the corporate restructuring. The shape of the corporate restructuring was influenced by important changes in the global economy.

Two important changes occurred in the global economy during the 1990s. The first was the rise to prominence of institutional investors.<sup>50</sup> The growth to prominence of institutional investors was part of the process of financialization that started in the 1970s. Crotty (2002) says that the rise of institutional investors in the US led to a situation where on average US stocks are held for just one year. In addition, an increasing share of industrial company revenues is from financial not productive assets. The second change was the surge in merger and acquisition activity during the 1990s. There were a number of reasons for this global restructuring that concentrated global businesses and caused them to focus on core businesses. The prominence of institutional investors was central to this restructuring because institutional investors demanded simpler structures. Much of the funds for the new global giants were sourced from institutional investors, who invested most of their funds into big companies with familiar brands, large market share, high R&D spending and focus on their core activities. Both these changes to the global economy had profound impacts on the structure of the South African corporate sector.

According to Roberts et al (2003), from 1994 the South African corporate sector engaged in the following activities:

- conglomerate unbundling and restructuring;

---

<sup>49</sup> See Terreblanche (2002) for an account of the response of white people and big business to the political changes.

<sup>50</sup> The growth in importance of the business media and their influence over business is also significant.

- consolidation within sectors by conglomerates as part of ensuring stronger focus and better strategic direction, which has also increased concentration;
- internationalization, mostly outward, by firms which moved their primary listing overseas, and foreign acquisitions by South African listed firms; and
- black economic empowerment deals, first, through special purpose vehicles for financing and second, more recently, in areas where government policy has provided a specific impetus.

Since the late 1990s, a number of large SA corporations moved their primary listing offshore to the London Stock Exchange (LSE) and some opted for joint listings on the JSE and developed country stock markets. Common reasons provided for these delistings by the ‘delisters’ are that they allowed the companies to be valued in a hard currency, reduced the risk premium for changes in the value of the rand, and improved their expansion capability (Roberts et al, 2010).

According to Robert et al (2003, p.p., 16-19), companies that moved their primary listings:

- Billiton: The first important issue was listed by Gencor on the London Stock Exchange in 1997. Billiton became the world’s second largest commodities group. Billiton merged with the Australian resources group BHP to form BHP Billiton in 2001. The BHP Billiton Group has headquarters in Melbourne, Australia.
- SAB: Moved its primary listing to the LSE in 1999, and has subsequently taken advantage of its larger liquidity by acquiring breweries in Asia Europe, and Latin

America. Following SAB's merger with Miller to create the world's second largest brewery, Altria (previously Philip Morris) had become SABMiller's single largest, and controlling, shareholder with 23.5 per cent.

- Anglo American Corporation: In October 1998 AAC absorbed Minorco and simplified its highly complex ownership structure. Following the London listing in May 1999, Anglo American (AAC) plc joined Billiton and SAB in the FTSE 100 index.
- Old Mutual demutualised in 1999. It set up a head office in London and listed on the London Stock Exchange with dual listings in South Africa, Zimbabwe, Malawi and Namibia.
- Liberty also obtained primary London listings
- Two infotech companies, PQ Holdings and Datatec also list abroad.
- Sappi, though still with a primary JSE listing, had secondary listings in four foreign stock exchanges

The input in 2008 of the Staff of the Policy and Research Division of the Competition Commission for the *South African 15 Year Review* found with reference to South African listed large corporations that in most instances "... greater capital outflows than inflows

[were] associated with the majority of major firms that have dual listings on stock exchanges (2008, p. 16)". Overall, the offshore listings in London were supposed to allow those corporations to raise capital to fund investments in South Africa. There had been a much more striking pattern of outward acquisition and investments. For example, Anglo American embarked on an extensive drive to increase international investments in mining and paper (these acquisitions are discussed below). Companies such as SAB, Sasol, Sappi, and Kumba had also been involved in acquisitions of firms in Europe, South America, Australia and China.

Carmody (2002, p.263) says, "By moving their headquarters to London, and financially delinking from South Africa, these companies are able to unlock 'shareholder value'." While the stock market capitalization of many companies in advanced capitalist countries, such as the US, are above their net asset values on the basis of projected future profits, Anglo's market capitalization was 22 per cent below its net asset value in 1995" (Ibid., p.p. 263-4). This unlocking of shareholder value could provide a further reason for these corporations strenuously advocated lifting exchange controls and arguing for their right to list offshore. However, it became clear quite quickly that these corporations were expanding out of South Africa rather than raising capital abroad to invest in South Africa.

The South African Competition Commission (2008) provides important insights into South Africa's industrial structure after the large scale corporate restructuring of the 1990s. They say that the major conglomerates that dominated the economy during the 1980s continue to do so even after their unbundling since 1994. They find that there has been increased vertical integration and explain that:

It must also be remembered that unbundling by conglomerates does not generally decrease the concentration of ownership within sectors. In most



instances there has in fact been an increase in concentration which raises concerns about possible anti-competitive behavior in the economy (Competition Commission, 2009, p.22).

Nolan (2003) points out that total global mergers activity grew from over US\$150 billion in 1992 to over US\$2000 billion in 1998, when 8 of the world's 10 largest mergers took place. By 1999 it was over \$3300 billion. Large South African companies were caught up in this process of restructuring. The offshore listing of major South African corporations from 1997 can be seen within the context of this merger frenzy. The result was a spectacular growth in M&A activity in South Africa. According to Ernst and Young data there was an increase from 136 M&A deals in 1994 to a peak of 605 in 1998. There was an average of 530 M&As from 1999 to 2002 (Ernst and Young, 2002).

Most of the pyramid structures, which were at the center of the MEC as a system of accumulation and were used by the powerful families to control most of the South African economy, were restructured, disentangled and rebundled. The unbundling of these conglomerates involved the separation of mining, industry and finance groups. Roberts et al (2003, p. 13) say, "In 1999 there were 60 deals classified by Ernst & Young (2000) as unbundling, accounting for R80bn compared with 40 deals in 1998 and 17 deals in 1997."

The next step was rebundling these businesses into business groups largely along sectoral lines.<sup>51</sup> For example, In 1998, Anglo American Corporation, which was a highly diversified conglomerate, merged its financial service interests of First National Bank and

---

<sup>51</sup> Roberts et al (ibid) point out that most of the mergers to rebundle were allowed by the competition authority and that restructuring was often used as a grounds to support mergers. There were a few cases when firm applying to merge that competed in the same market segment were not allowed to merge. However, many firms that were in related but not identical markets were allowed to merge.

Southern Life with Rand Merchant Bank to create FirstRand and then swapped its 15.3 per cent stake with the Rembrandt Group (another highly diversified conglomerate) for 7.1 per cent of Billiton and 11.3 per cent of Goldfields in 2000. These restructuring moves allowed Anglo to withdraw from finance and focus on mining while the Rembrandt group could advance its control over a significant share of the South African financial markets.

Goldstein (2000) provides an analysis of South African business restructuring; he shows that the boom in merger and acquisitions in South Africa during the 1990s was different from those in other countries. He shows that there were particularly South African characteristics to the mergers and acquisitions. The restructuring in South Africa was more about dismantling pyramid structures than increasing the competitiveness of industrial sectors. Goldstein's says, "Of the twenty largest South African deals reported in 1992-98, 75% corresponds to the simplification of the corporate structure; 10% to consolidation in the financial industry; 10% to foreign acquisitions; and only one deal – TransNatal's acquisition of Rand Coal to form Ingwe Coal in 1994 – is a "genuine" South African merger (ibid., p. 17)." He makes the important point that it is remarkable that South African conglomerates have practically not made any large acquisitions in their own country. He points out that this lack of acquisition is true even in sectors such as utilities and internet related investments "... where family-controlled business groups in OECD countries have been active even while refocusing their portfolios on the core business (ibid.)."

Roberts et al (2003) showed with reference to the 1990s and early 2000s, that for almost the entire period outward direct investment exceeded inward FDI. Major foreign

investments had generally occurred due to the acquisition of stakes in state-owned utilities (Telkom and South African Airways). Some occurred as a result of re-entry of firms such as Toyota and General Motors that left South Africa because of sanctions. Roberts and Machaka's (ibid.) evidence together with the analyses of Goldstein (2000) about the main reason for South African mergers and acquisitions indicates that the offshore listings and restructuring were a selective withdrawal from downstream, value added businesses and not from profitable MEC businesses. Chapter four will discuss this aspect of corporate restructuring in South Africa in more detail within the context of corporate restructuring since 2000 when the influence of financialization and the pressures from the shareholder value movement increased within South Africa.

There were a large number of global mergers and acquisitions at this time because global markets were being restructured and market share within different global markets seemed to be in the process of being reapportioned (Nolan, 2002). The moves to restructure and further internationalize their operations seemed to indicate that the wealthy and powerful in South African big businesses did not want to be left out of this process. They wanted to ensure not only that they got their share of the international markets by internationalizing their operations but also to consolidate and secure the viability of their South African assets.

In short, the internationalization during the 1990s may have earned some of the larger institutional shareholders and controlling families of the large corporations handsome returns when they restructured and internationalized but it set them into a new global context where competition was much harder. Within this new context the lines of authority within global value chains and between the shareholder value movement and

corporate management were stricter. My interpretation of the corporate restructuring, re-division and reallocation of economic sectors, and the resulting increased concentration of South African markets by the large corporations is that they had to use this power to maintain high levels of economic rents in South Africa to support their ventures in highly competitive and sometime cutthroat international markets. They therefore, continued to control as much of South African markets as they could.

The South African context for the large number mergers and acquisitions during the 1990s was that the corporations that had evolved through dominating the MEC and a few in new growth sectors such as retailing and telecommunications continued to stifle investments into diversifying the industrial base of the South African economy. They could continue to play the predatory market role that stifled the rise of competition, particularly of small and medium industrial firms, that they played during the 1980s (see above). The new concern as these corporations that dominated the MEC became more financialized was to restructure in order to appear more attractive to rentiers and the shareholder value movement active in the external markets where they had relisted and those entering South African markets.

The review of the Competition Commission says:

The oligopolistic nature of many of South Africa's industries has been built on a range of institutional linkages such as the informal market-sharing agreements reported in many subsectors of the economy. Information sharing and trust are two of the most important requirements of collusion and, while new entrants into sectors may have a major impact on the degree of rivalry and competitiveness in a sector, the barriers to entry remain high in most sectors. These barriers can be endogenous, that is, the result of strategic behavior by dominant firms and of formal and informal links between potential rivals. The barriers can also be increased by vertical integration in the South African economy which has been one of the patterns under conglomerate restructuring (*ibid.*).

More research is required on the integration of the internationalized South African corporations into various global value chains. Milberg's (2008) analysis of US corporations that have moved operations abroad says that global value chains in a financialized world help to increase the returns to investors in US financial markets even though less of the production and surplus extraction occurs within the US. He explains that the US corporations that are lead corporations within value chains have been able to squeeze profits out of firms lower down in the value chains to increase returns to their shareholders in US-based financial markets. Further research could investigate the role played by large South African corporations that have restructured and internationalized within global value chains and how that affected their South African operations.

### **3.3.3 Financialization in the transition from apartheid to democracy**

The enormous changes in corporate structure started during the 1990s political transition from apartheid to democracy in South Africa. The historical and institutional approach taken in this chapter recognizes the history of the institutions involved in the process of corporate restructuring. Understanding changes in corporate structure and the internationalization of South African big business during the post-apartheid period has to take into account that the managers and owners of big business had generally benefited from apartheid and actively worked with the apartheid state security structures against those who struggled to end apartheid. Therefore, most of big business would probably have been concerned with the political changes and may have had motives to restructure their businesses and move their capital out of reach of a new government elected in a democratic system.

In short, the domestic changes to conglomerate structures, the responses to the shifting nature of global corporate structure and organization of global markets and the pressures from the shareholder value movement were made by people who had lost political power but maintained control over the big businesses that dominated the economy. They faced huge uncertainty with regard to political and economic orientation of the new government. Heintz (2002) says that from the mid-1980s many South African business leaders argued for engagement with the liberation movement because they feared a new regime in South Africa would adopt an African socialist economic model. Heintz says, “From the investors’ perspective, it was not clear that current property rights would have been secure or that the social position of the white business class would have been sustainable (Heintz, 2002, p. 4).”

It is worth examining big business and their ties to the apartheid regime in a bit more detail. Terreblanche (2002) argues that there was an “extraordinary politicization” of the business sector during the 1970s as a result of their close relationship with government that continued through to the democratic elections. The involvement of big business with the apartheid government was so intense that business was represented on apartheid state security structures during the 1980s, including during successive states of emergency when state repression was most severe.<sup>52</sup> Through these security structures big business developed a close relationship with the apartheid government’s “securocrats”. According to Terreblanche (2002), business cooperated with government

---

<sup>52</sup> See Terreblanche (2002) for the alliance of big business with the apartheid state during the 1980s when the struggle against apartheid intensified on all fronts – the international anti-apartheid movement, internal struggles by community organisations, student organisations and trade unions, increased activities by the African National Congress’s armed wing and struggles on the South African border with Mozambique and Angola.

to develop the “total strategy” to counteract the “total onslaught” against white minority rule.<sup>53</sup>

Big business and the apartheid government had tried to maintain apartheid or reform it but were opposed to a sudden transition to democracy where the black majority elected the new Government. As mentioned above, by the mid-1980s, some of the same businesses that were active in the security structures of the apartheid state also made contact with the African National Congress.<sup>54</sup>

During the transition from apartheid to democracy there was some contestation about the future economic policy of the country. The uncertainty during that time of change could have been an additional motivation for many of the wealthy and the large corporations to move their assets out of South Africa and the reach of the new government. A company that moved its primary listing offshore would be able to move a large amount of capital out of South Africa legally because they would not be bound by

---

<sup>53</sup> The rhetoric of the “total strategy” was anti-communist and it was a combination of repression and reform. Terreblanche says:

The new working relationship between business and government was sealed at the Carlton and Goodhope conferences in 1979 and 1981. At those conferences the corporate sector was given an institutionalized role, within the reorganized state sector, of formulating and implementing 'free market' economic policies. Ever since this politicization took place, the corporate sector has regarded an active role in political decision making as its birthright (p74).

<sup>54</sup> One of the most reported on meetings was between a delegation that included Gavin Relly the Chair of Anglo American and the ANC in Kenya on 14 September 1985. The *Washington Post* ran a story on that day that reported on the meeting and gave the views of Gavin Relly and ANC President Oliver Tambo: "We felt, they and us, that this has been a very important contribution to the process of seeking ways and means of ending the violence of apartheid," said Gavin Relly, chairman of Anglo-American Corporation, the giant South African conglomerate that owns or controls 70 percent of the companies listed on the Johannesburg Stock Exchange." The article carries on to give the ANC's comments: "The ANC bluntly warned that "big corporations" will be nationalized if blacks take control. "We can't leave the large corporations operating as they do," said Oliver Tambo, president of the outlawed ANC, after the all-day meeting with the seven businessmen.

Link to the article: [https://www.washingtonpost.com/archive/politics/1985/09/14/s-african-businessmen-meet-with-exiled-guerrilla-leaders/331c11d6-1ef2-4e58-9d75-aeabe053674e/?noredirect=on&utm\\_term=.48ef9994f066](https://www.washingtonpost.com/archive/politics/1985/09/14/s-african-businessmen-meet-with-exiled-guerrilla-leaders/331c11d6-1ef2-4e58-9d75-aeabe053674e/?noredirect=on&utm_term=.48ef9994f066)

exchange control restrictions on residents. Large amounts of capital could leave the country in the form of dividends or other payments. Also, as I show in Chapter 6, capital flight had continued to be high throughout the 1990s, indicating that wealthy South Africans wanted to increase their wealth offshore.<sup>55</sup>

Heintz (2002) estimates an investment function for South Africa for the period 1980 to 1993 to examine whether social conflict led to lower investment. The investment function attempted to correct shortcomings in investment models, including the Kaleckian influenced models of the type developed by Marglin and Badhuri (1990) and Bowles, Gordon and Weisskopf (1989) that take into account the impact of distributive outcomes on investment. Heintz (*ibid.*, p. 2.) argued that political unrest and distributive conflicts could be important omitted variables in investment functions. And, he developed a function where inequality affects investment through distributive conflicts.

Heintz (*ibid.*) developed a time-series index of political unrest and workplace distributional struggles taking into account the average annual prison population, the number of people held in detention without trial under apartheid security laws and the number of recorded strikes (Heintz, 2002, p. 5). The levels of fixed investment declined sharply during the period he considered and he found that growing political unrest had the largest effect on the rate of accumulation. Interestingly, he found that large growth in political unrest and distributive conflicts had a large impact on the rate of accumulation independent of distributive outcomes (*ibid.*, p. 13). In other words, by taking into account political unrest and redistributive conflict one could argue that a profit led growth



strategy that redistributes income towards profits and in turn increases inequality could nonetheless lead to declining accumulation if social instability increased (ibid.).

Heintz (ibid.) considered the period from 1980 to 1993 in South Africa, which included the transition period from 1990 to 1993 before the first democratic elections in 1994. His argument was that social instability in the form of political unrest and increased trade union mobilization would negatively affect rates of fixed investment. The solution he derived for achieving higher investments was to recognize that “Altering the responsiveness of political unrest to changes in the profit rate provides a solution (ibid.).” In other words, he suggested measures to ease the effects on workers and the poor when distributive outcomes were in favor of capital. However, Heintz solution may not be sufficiently rooted in the history of South African institutions because the actual decisions with regard to the future of the corporations and whether to invest in South Africa were generally in the hands of owners and managers of white big business. As discussed above, South African big business had become highly politicized and were close to state security structures. Thus, while Heintz (ibid.) is correct to include strikes in his index<sup>56</sup>, his empirical study cannot take adequate account of the political economy of capital and labor conflict in South Africa.

Black South Africans won their struggles to achieve legal status as citizens of the country and as labor citizens in the workplace. A large part of the struggle against apartheid was a struggle to end apartheid workplace relations (see Webster, 1991 and

---

<sup>56</sup> Heintz refers to another empirical study that considers political unrest on of the rate investment by Fedderke, Kalt and Luiz (1998) that use an index of political instability but correctly chooses to develop his own index that includes labour conflict. Fielding (1997) also had a macroeconomic model of investment that included an index of political instability. He found that investment was highly sensitive to relative prices, interest rates and political instability.

Von Holdt, 2003). White domination of political power and relations in the workplace between capital and labor, especially black labor, are two important facets of the apartheid-era. South African big business realized that their control over the political process and over black labor was weakening.

The Wiehahn reforms that led to the 1981 Labor Relations Act (LRA) led to important changes in the power relations between black workers and capital and the shape of workplace struggles. The LRA recognized black workers as labor citizens for the first time and also recognized their right to unionize and strike. This change was an important reason why South Africa had the highest number of strikes and days lost to workplace stoppages during the 1980s. Workers and their unions used the space provided by the Wiehahn reforms to challenge the racist practices in the apartheid workplace (Webster, 1991, Von Holdt, 2003). More than this, they included political demands in their struggles and often developed a vision not only of a future type of workplace but also for a future society. In many of the larger industrial unions this vision was socialist.

During the 1980s, industrial workers directly challenged the control of managers and supervisors (*ibid.*). In many cases workers would not allow management to discipline workers and took control of discipline.<sup>57</sup> They used strikes and stoppages as well as negotiating in the labor relations system to further this struggle. These struggles were often seen as bringing into the workplace the ANC's call to make the country ungovernable by challenging apartheid workplace governance structures and to replace

---

<sup>57</sup> See for example Von Holdt (2003) who provides a fascinating, detailed account of the challenge to the apartheid workplace at the Highveld Steel and Vanadium Corporation after the adoption of the LRA. HSVC, one of the largest industrial operation in South Africa at the time.

them with structures of people's power (Von Holdt, 2003). South Africa was in a manner of speaking a different country after the LRA.

Kalecki (1971) refers to why bosses would oppose full employment:

The social position of the boss would be undermined and self-assurance and class consciousness of the working class would grow ... discipline in the factories' and 'political stability' are more appreciated by the business leaders than profits. (Kalecki, 1971, p. 141)

Kalecki argued that a decline in the reserve army of the unemployed would increase the power of workers relative to bosses. The ability of bosses and managers to assert control over their workers and exercise discipline in the workplace would be undermined. However, the power of capitalists would not only be eroded in the workplace. The political control exerted by the capitalist class in society would be challenged as workers gained more confidence and organize themselves as workers and citizens.

The events in South Africa, especially during the last few decades of the twentieth century, showed that full employment may not be the only reason for a capitalist class to have these concerns about their power. During the 1980s, the black working class stressed their muscles and shook the foundations of capitalist control in South African industry and society. Their struggles were a central part of a movement to liberate the country from apartheid. Kalecki's view that bosses want discipline in the factories and political stability is extremely relevant for understanding the low levels of investment and employment creation in South Africa during the post-apartheid period.

In other words, Heintz (2002) was correct in his analysis that social conflict is associated with lower rates of investment in South Africa. However, the relations between capital and labor indicate that the solution would be more difficult than Heintz suggestion that South Africa should offset the consequences of negative distributive

outcomes to reduce the likelihood of investment curtailing social unrest. Unfortunately, the apartheid government did not implement interventions that adequately offset the negative consequences of negative distributive outcomes for the poor but they did update labor legislation. These labor reforms could have been seen by big business as further challenging the power relation between capital and labor.

During the 1980s, after the new Labor Relations Act (1981) was passed, the black trade union movement had won significant ground in asserting the rights of black workers and had forced significant change to workplace organization by challenging apartheid workplace forms of control and discipline (Von Holdt, 2003 and Omar and Webster, 2004). The ANC government, on the one hand implemented neo-liberal economic policies set out in GEAR (the Growth, Employment and Redistribution program adopted by government in 1996), such as inflation targeting, deficit cutting and trade and financial liberalization. On the other hand, they implemented a progressive new labor relations regime. A number of statutes were adopted once the ANC took power:

- The National Economic Development and Labor Council (NEDLAC) Act of 1994,
- The Labor Relations Act of 1995 (LRA),
- The Basic Conditions of Employment Act of 1997 (BCEA),
- The Skills Development Act of 1998,
- The Employment Equity Act of 1998, and
- The Social Plan Act of 1998.

These statutes were influenced by the progressive trade union movement's advocacy for high road labor relations that rejected neo-liberal notions that South Africa's global competitiveness could be enhanced by lowering wages and increased labor market flexibility.<sup>58</sup>

### **3.4 Conclusion**

This chapter provided a historical and institutional background to the South African economy as background for the analysis that follows in the next three chapters. The development of the minerals and energy complex as a system of accumulation was based on compromise and conflict between the apartheid state and Afrikaner and English big business. The system was based on control and the exploitation of black workers. The process of accumulation in the MEC led to outcomes where the mining and mineral processing sectors grew and sectors with close links to the MEC sectors developed. However, the industrial structure, both manufacturing and productive services did not deepen beyond much beyond the core MEC sectors by time of the transition from apartheid to democracy.<sup>59</sup> A few large corporations dominated the South African economy through most of the Twentieth Century and many of these corporations had conglomerated during the 1980s in response to international isolation and divestment from South Africa. The power of the key conglomerate groups and financial institutions influenced the allocation, exacerbated concentration of markets and created conditions not conducive for small and medium manufacturing industries to grow.

The widespread deregulation of the global financial system that promoted financialization had an influence over corporate structure. Deconglomeration led to unbundling and rebundling of the large groups with a reorganization of control and concentration of markets by big business along economic sectors. At the same time,

---

<sup>59</sup> See Hanival and Rustomjee (2010) and Bell et al (2018).

global markets were being reapportioned as a result of large-scale mergers and acquisitions in the global economy. Large South African corporations looked towards internationalization to be part of this process but their investment allocation decisions were also influenced by the political changes, the changing power relationship with labor and uncertainty. The motives that would shape the allocation of capital by big business during the post-apartheid period would be a combination of the responses of owners and managers of white big business to the political changes and workplace power relations within a country and world where the effects of financialization were growing. Chapters four and five discuss two effects of financialization, the rise of shareholder value and financialization of non-financial corporations and the effect of capital flows respectively, on South Africa.

## CHAPTER 4

### FINANCIALISATION, CORPORATE RESTRUCTURING AND INTERNATIONALISATION SINCE 2000

#### 4.1 Introduction

This chapter argues that South African big businesses, including the largest corporations that grew out of the mining and finance industries during the past century and still dominate the economy today, have not significantly contributed to improved accumulation in the economy since 1994. The major concern of this dissertation is accumulation that would support much needed structural transformation, particularly deepening and diversifying the productive manufacturing and services sectors of the economy. Instead, the post-apartheid period has been one of continued concentration and control over most sectors by big business and there has been de-industrialization.

This chapter together with Chapter 3 builds a link between the macroeconomic and sectoral data presented in Chapter 1 and the discussion around financialization and corporate restructuring informed by the discussion in Chapter 2 of heterodox economic theory and models of investment, particularly those that include the impact of financialization on accumulation.

This chapter will contribute to the South African policy debate and economic literature assessing economic policies since the end of apartheid by offering an alternative explanation of poor accumulation to that of mainstream economists and official government publications. This chapter provides an analysis of financialization of the South African economy and corporate structure for the period from 2000 onward that should make an original contribution to the existing small literature on the

financialization of the South African economy and to the economic policy debate in the country. It provides an analysis that considers the pressures and behavior of the domestic corporate sector within the context of the changes to global business as a result of domestic political change and changes in global finance, which is grounded in South African economic history.<sup>60</sup>

The previous chapter discussed the restructuring of the largest South African corporations through unbundling of conglomerates and restructuring. This process of collusive restructuring saw the largest corporations focus on core business, many under the influence of the shareholder value movement. The process can broadly be characterized as one where diversified conglomerates, often under pressure from the shareholder value movement to focus on core business, exchanged business groups in a sectoral division of the economy whereby the restructured corporations maintained control of large parts of the economy, generally through single sector concentration. Some corporations that were relatively smaller when measured as a percentage of the JSE's market capitalization in the 1990s, for example in retailing and telecommunications (particularly mobile phones), grew in size benefiting from increased concentration in their sectors.

This chapter builds on and continues the discussion about corporate change in the previous chapter, that a few large corporations controlled a huge share of the economy (Bosiu et al, 2017, Roberts, 2013, Roberts et al, 2003, Goldstein, 2001, and Fine and

---

<sup>60</sup> One official interpretation of the poor investment performance in South Africa appears in "Towards a Ten Year Review" released by the Presidency of the Government of South Africa. They say that South Africa and Southern African economies are small and growing relatively slowly and are not that attractive to foreign direct investors. They also blame the media for poor investment performance in South Africa. They say that poor investment performance "... is the result of poor information, and the inclination of the media to portray the South African story as a confusing drama, rather than a saga of steady improvement (ibid, p.35)." This chapter provides a deeper, alternative analysis.



Rustomjee, 1996). Their owners and managers made allocation decisions about a large share of the capital generated in South Africa. This chapter argues that the response of big business to political changes in South Africa and changes in the global economy during the post-apartheid period provide support for the view that the largest corporations were unlikely to invest in South Africa in a way that addresses the structural weaknesses of the economy and promotes diversification towards increasing downstream production.

As discussed in Chapter 2, from a theoretical perspective, there was a combination of Steindl's (1952) reason for stagnation, which is that oligopolies received a larger share of national income but did not increase domestic investment levels, and the impact of neo-liberal globalization and financialization, where these dominant corporations moved their profits into financial activities and abroad out of the South African economy.

In chapter 3, I showed that South African corporations had become increasingly financialized during the transition to democracy. I also showed that large South African corporations have always had a close relationship with global capital and that many of the largest important South African conglomerates had already become significant multinational corporations by the 1980s. In this chapter, I examine how the outcome of financialization and the global corporate changes on South African corporations was shaped by the domestic political and economic transformation that began with the transition from apartheid to democracy. It seems that the end of apartheid and the perceived fears of white capital about a democratically elected government gave added impetus to the internationalization of South African corporations and the allocation of capital to acquisitions and growth outside of the country. In Chapter 6, I examine another

avenue for withdrawal of capital from the South African economy where I show that capital flight was substantial during the post-apartheid period 1994-2008 and estimated to be larger than during the period 1980-1993 during a time of political turmoil and the eventual negotiated settlement to end apartheid.

The rest of this chapter is structured as follows: The next section drawing on the investment theory and models that consider financialization, uses data from the South Africa Reserve Bank on financial markets and flow of funds to show trends that indicate financialization and the associated misallocation of capital away from productive sector accumulation. The section thereafter takes this analysis further by considering corporate restructuring and the changes observed of listed companies to explore how accumulation and the prospects for accumulation have been affected by corporate restructuring since 2000. The fourth section is a case study of the Anglo American Corporation and how it has changed and the impact on the South African economy. The final section is the conclusion.

## **4.2 Financialization and accumulation in the South African economy**

Other than Onaran and Galis (2012), discussed in Chapter 2, where South Africa is included in a broader study of G20 countries, I am not aware of a study that has modeled investment including independent variables that proxy different aspects of financialization. However, in Mohamed (2010) and Ashman, Mohamed and Newman, (2013), I consider empirical evidence for the financialization of the South African economy and financialization of nonfinancial corporations in South Africa. There are also several other papers that provide empirical evidence for financialization of South Africa

and nonfinancial corporations (for example, Ashman, Fine and Newman, 2010, Karwowski, 2015 and 2017, Newman, 2015, and Isaacs, 2016). This empirical evidence is used to show a link between financialization and poor accumulation. The papers after 2011 use flow of funds accounts to examine financial flows to consider factors related to the sources and uses of funds by households, financial institutions and private nonfinancial corporations that indicate financialization. All of these studies are influenced by the MEC literature (to different extents) and look at corporate data related to restructuring. Karwowski (2015) studies the balance sheets of mining companies and shows how they hold excessive cash balances. She argues that while they need fairly substantial amounts of cash for precautionary reasons, she finds that they are holding excessive cash to speculate in stock markets. My coauthors and I, in Ashman, Mohamed and Newman (2013), as well as Karwowski (2017) show, using the flow of funds tables, that NFCs in South Africa have become financialized. We show that as the NFCs financialized, the composition of short-term financial assets changed. The composition of short-term financial assets changed to become even more liquid and shorter-term between during the 1990s and into the 2000s.

Kaworwski (2017) makes the important link between excess corporate savings, the shifting composition of that savings and the growth in liquidity that contributed to inflation in South African property markets. I show in Mohamed (2016) and with my coauthors in Ashman, Mohamed and Newman (2013), along with Newman (2015), and Isaacs (2017), that short-term foreign inflows of capital were an important source of funds for NFCs and, therefore, were a potential constraint on their choices to make longer-term investments. However, more research is required to consider the impact of

foreign sources of flows given that many large corporates, particularly those that had relatively high profits and high retention rates (discussed in the next section), have made large net acquisitions of financial assets over a long period. The implication is that retained earnings and foreign sources of portfolio flows and deposits were being directed towards maintaining a relatively high level of financial market activity by NFCs.

The next section engages in empirical analysis of central bank macroeconomic and flow of funds data to consider the trends in private NFC's access to credit and use of funds. The aim is to illustrate at a general level that there has been financialization of non-financial corporations and to consider the most recently available data. I do not delve into the deeper type of analysis here that my coauthors and I provide in Ashman, Mohamed and Newman (2013), and also in Newman (2015), Karwowski (2017) and Isaacs (2017), that examines the detailed composition of sources and uses of funds to tease out the more detailed aspects of the financialization of NFCs.

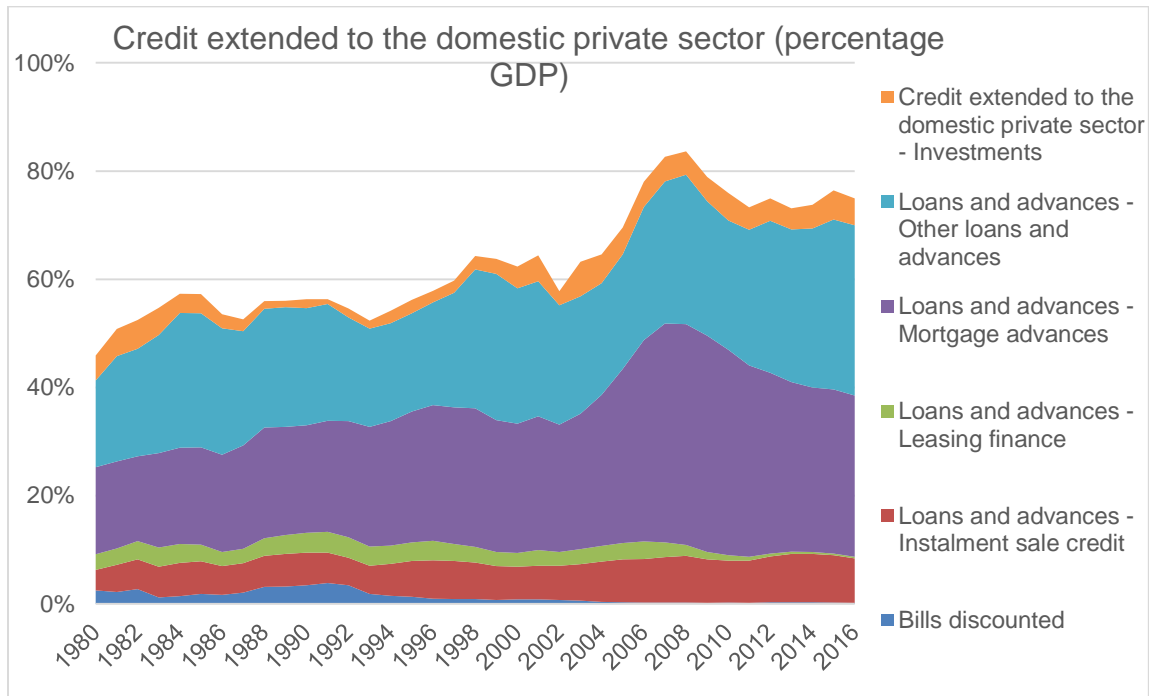
The South African financial system, particularly during the post-World War II period, had developed along similar lines to that of the English and US systems and can be broadly described as market-based rather than bank-based (Roux, 1991).<sup>61</sup> In other words, South African businesses that required finance for long-term investment during the post-WWII period would use retained earnings or seek finance in securities markets. The state owned Industrial Development Corporation did provide some industrial finance but on the whole its lending was a very small share of total lending in the country and its main beneficiaries have been large, capital intensive projects in the mining and minerals sectors (Roberts, 2007). The banks and other monetary institutions largely provided

---

<sup>61</sup> See for example Allen and Gale (2000) and Mettenheim (2009) for discussion of varieties of financial capitalism drawing on Hall and Soskice (2001) work on varieties of capitalism.

business with short-term operating capital and serviced the credit card, home mortgage, vehicle lease and finance and other short-term lending for consumption.

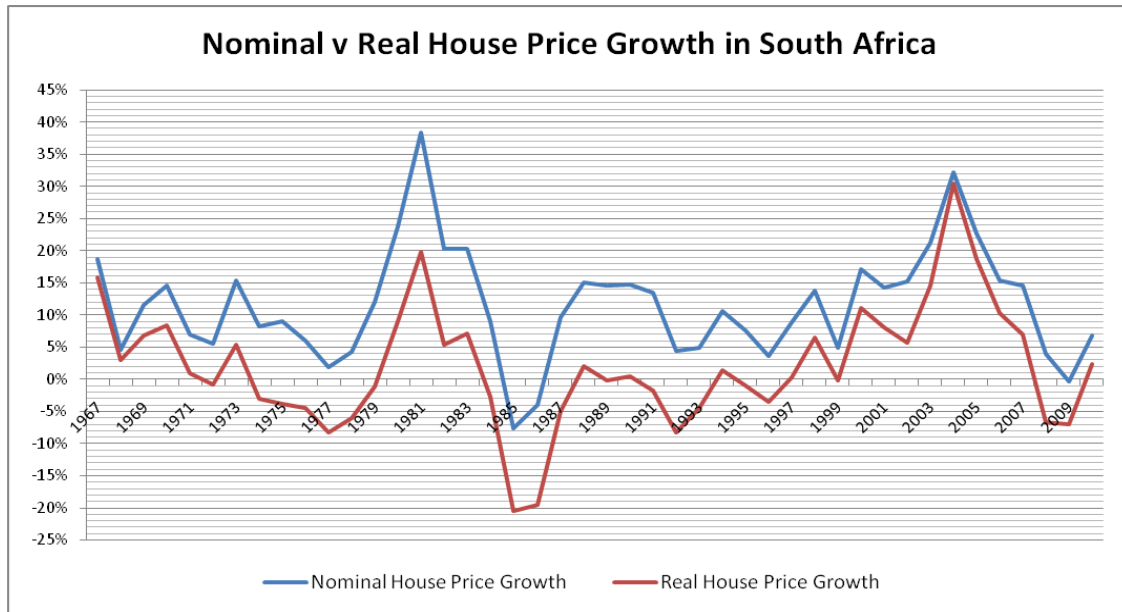
**Figure 4.1: Private sector credit extension by all monetary institutions by type**



Source: calculated using SARB data

Figure 4.1 shows that during the period 1990 to 2016 this form of credit allocation continued in the economy. Investment was a relatively small share of total private sector credit extension during that entire period, and was generally below 5 % of GDP for the entire period. On the other hand, the growth in mortgage advances from 2003 to 2008 supported the growth of a housing price bubble in the affluent part of the real estate market in South Africa. South Africa had average house price increases that rivaled the housing price bubble globally during the period 2003 to 2007 (see figure 4.2).

**Figure 4.2: Nominal vs real house price growth in South Africa (annual percent growth)**



Source: [www.housepricesouthafrica.com](http://www.housepricesouthafrica.com) (who use ABSA bank data)<sup>62</sup>

An important phenomenon in the global economy that took hold in South Africa was financialization, which can be gauged by the growth in the size and influence of the financial sector from the 1980s when financial markets and cross-border capital flows were liberalized.<sup>63</sup>

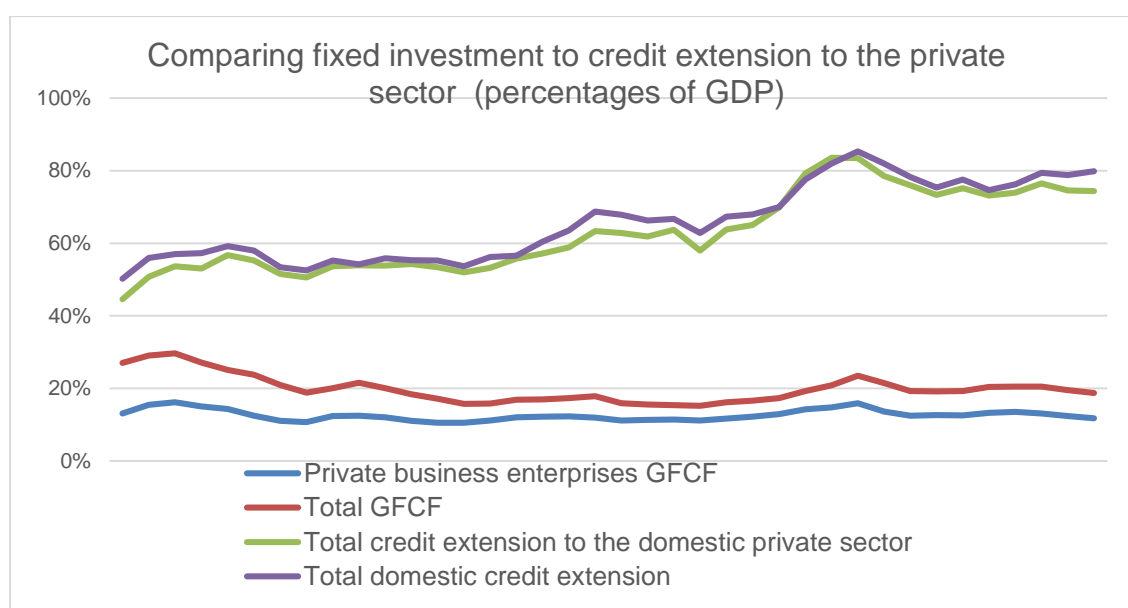
An important aspect of the financialization of the South African economy during the post-apartheid period was increased capital inflows, particularly short-term portfolio flows from developed countries (see Chapter 5). These short-term flows signaled not only the end of apartheid financial isolation but more importantly global financiers' change in sentiment about South Africa after ignoring South Africa after its 1985 debt crisis. The

<sup>62</sup> Graph is available at <http://housepricesouthafrica.files.wordpress.com/2011/01/nominal-v-real-house-prices-growth-since-1966.png> (downloaded on 14 June 2012).

<sup>63</sup> See chapter 3 for more discussion on financialization of the South African economy.

slow liberalization of exchange controls by the South African government from 1996 may also have affected this sentiment. The more important reason for the increased flows to South Africa was the huge increase in global liquidity that was accompanied by large movements of short-term portfolio flows into certain developing countries in Asia, Latin America and South Africa in Africa (Palma, 2003).

**Figure 4.3: Credit extension and investment as percentages of GDP**



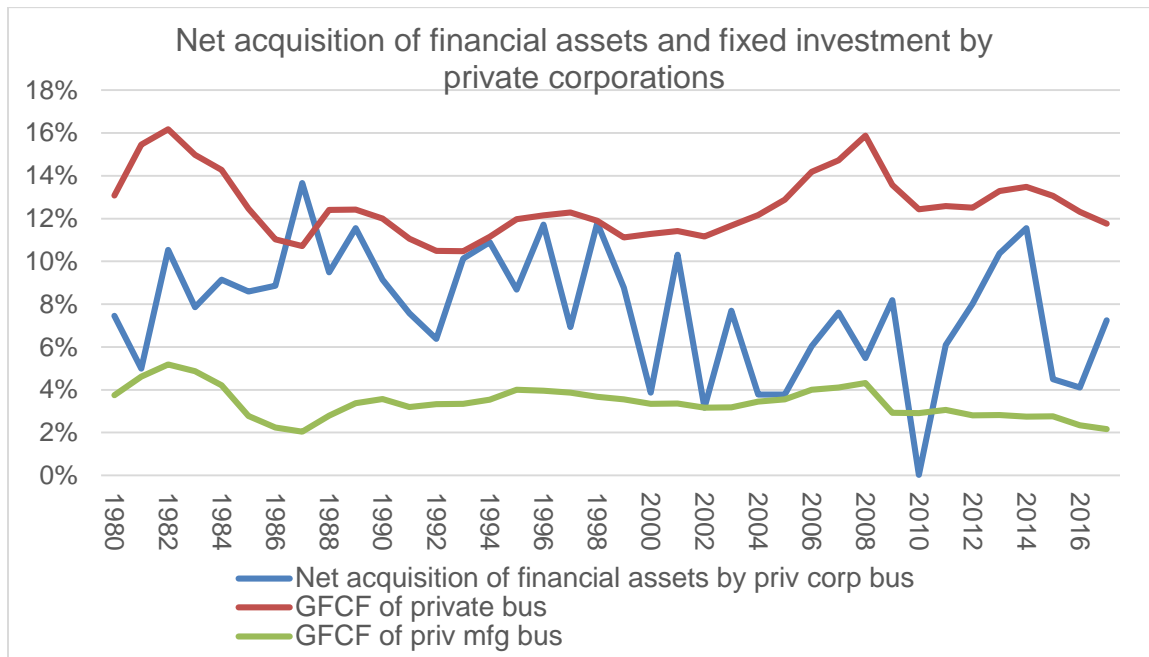
Source: calculated using SARB data

Figure 4.3 compares the trends of total fixed capital formation, private business fixed capital formation, total domestic credit extension and total credit extended to the private sector all as percentages of GDP for South Africa for the period 1980 to 20017. Total credit extension to the domestic private sector as a percentage of GDP grew from 58% in 2002 to 84% in 2008. The increase in liquidity meant large increases in credit extension until the tightening of credit markets as a result of the crisis. By 2011, the extension of

credit to the private sector dropped to 73% and remained in that range until 2017 when it was 74%. There was a large increase in credit extension to the private sector from 2002 to 2007 of 26% of GDP but the increase in GFCF during that period was just 5% of GDP. As shown above in Fig. 4.1, less than 10% of credit extension to the private sector was directly for investment.

Private sector GFCF as a percentage of GDP increased from 11% in 2002 to 16% by 2008. This increase was probably induced by increased activity in retailing and finance and related sectors. This effect would have slowed as credit conditions tightened and GFCF declined to 13% by 2011 and down to 12% by 2017. As discussed in chapter 1, the bulk of the fixed capital formation during the 2003 to 2008 period was in the types of services that would have benefited from increased household consumption and increased financial speculation.

**Figure 4.4: Capital allocated to net acquisition of financial assets and fixed investment (percentage of GDP)**





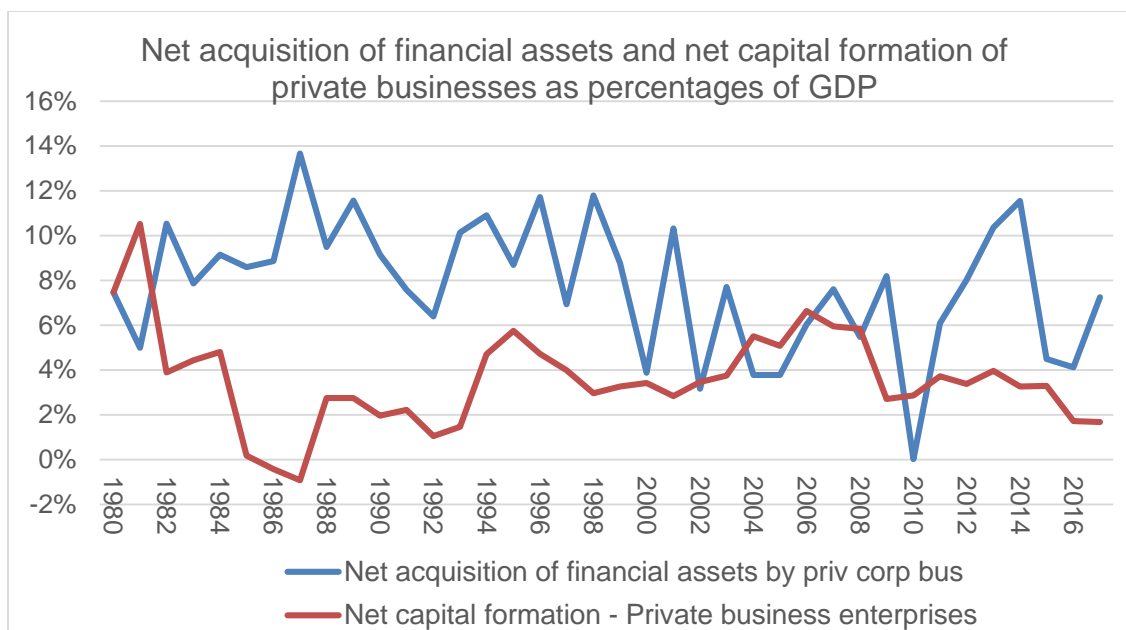
Source: calculated from SARB flow of funds and quarterly bulletin data

Figure 4.4 shows the flows in the net acquisitions of financial assets by private business corporations. These net acquisitions were volatile but indicate a declining trend through the 1990s from more than 10% of GDP during the early-1990s to below 8% of GDP through to 2008. There was growth to 6% of GDP in 2011 and then 12% of GDP in 2012 and it was 7% in 2017. Throughout the period net acquisition of financial assets as a percentage of GDP was lower than private corporate gross fixed capital formation. The declining trend of net acquisition of financial assets as a percentage of GDP from 2002 to the global financial crisis seems to be associated with the growth in private corporate gross fixed capital formation during that period.

However, an interesting indication of the influence of financialization of the private non-financial corporations is that net acquisition of financial assets as a percentage of GDP was higher than gross fixed capital formation of private manufacturing businesses for the entire period 1980 to 2017, except for 2010 where it dropped to nearly 0% of GDP.

Fig 4.5 shows that when one compares net acquisition of financial assets of NFCs as a percentage of GDP to their net capital formation then net acquisition of financial assets as a percentage of GDP is higher for most of the period except for the period 2004-06 and 2010. Net capital formation is calculated by subtracting the consumption of fixed capital (depreciation) from gross capital formation.

**Figure 4.5: The main sources and uses of capital in corporate business enterprises**



Source: calculated from SARB flow of funds data

This brief empirical examination of NFCs sources and uses of funds complements the discussion in of trends in different macroeconomic variables in Chapter 1 and the examination of the effect of capital flows in Chapter 5 and capital flight in Chapter 6. Net capital formation has been relatively low but responded to growth in aggregate demand after 2002 until the financial crisis. This short increase in net capital formation seems to have led to a decline in net acquisition of financial assets until the global financial crisis but after 2010 net acquisition of financial assets grew while net capital formation declined. However, the main point is that net acquisition of financial assets has generally been higher than net capital formation indicating financialization of NFCs. The next section will provide more concrete analysis of South African corporations by considering the largest corporations on the JSE and ownership and control.

### 4.3 Corporate restructuring since 2000

**Table 4.1: Summary of JSE market capitalization control (1995-2016)**

	1995-2000	2001-2005	2006-2011	2012	2013	2014	2015	2016
ANGLO AMERICAN CORP	25.1	21.2	15.4	8.9	6.8	5.5	1.6	3.3
BIDVEST GROUP	1.0	1.0	0.9	0.9	0.9	0.9	1.0	1.1
BLACK GROUPS	7.1	5.1	5.5	3.9	1.5	1.3	0.6	0.5
DIRECTORS	11.1	7.3	8.2	9.2	7	7.1	11.3	12.4
FOREIGN	4.0	12.9	26.5	30.0	33.2	30.9	26.8	42.0
INSTITUTIONS	3.9	10.1	14.1	19.4	22.1	23.7	17.6	18.1
INVESTEC	2.0	1.4	0.9	0.7	0.7	0.9	1.0.0	0.8
LIBERTY LIFE/ STD BANK	8.3	4.9	3.5	1.1	2.5	2.5	2.1	
NASPERS							7.7	6.9
REMGRO (REMBRANDT)	9.8	8.7	5.7	7.2	9.1	9.3	9.2	7.2
RMB/FIRSTRAND	2.6	4.6	3.1	3.9	2.3	3	2.6	2.4
OLD MUTUAL (SA MUTUAL)	10.6	7.7	3.6	3.3	2.8	2.7	2.8	2.1
SABMILLER	2.8	4.1	6.2	9.2	9.1	9.4	12.5	0.0
SANLAM	11.9	4.9	1.4	1.4	1.4	1.7	1.3	1.2

Source: Bell et al (2018)

Many of the large corporations that dominated the economy during apartheid and restructured during the late 1990s and early 2000s managed to remain dominant. While some of them may have had large declines in their percentage of the overall market capitalization of the JSE (see Table 2.1), many of these corporations remained amongst the lead companies within their sectors on the Johannesburg Stock Exchange (Bosiu et al, 2017). For example, Anglo American Corporation's share of the market capitalization of the JSE dropped from 21% in the 2001 to 2005 period to 3% in 2016 but Anglo American Corporation, Anglo Platinum and AngloGold Ashanti still fall into the top 50 companies by capitalization on the JSE and continue to dominate the mining sector of the JSE.

However, there have been important changes. Since the end of apartheid, the largest corporations have internationalized their operations and have embarked on deconglomeration and restructured. The changes in control of market capitalization by the six major corporations that Rustomjee (1991) referred to as the 6 axes of capital during the 1980s, is provided in table 2.1. The restructuring occurred with large groups splitting along sectoral lines and restructuring usually increased focus on core activities within the groups. Internationalization of these corporations saw many of these companies taking a larger interest in global markets while consolidating control in South Africa. The large corporations that shifted their primary listings abroad had argued that they would be able to raise capital abroad to invest in South Africa. These corporations expanded abroad but not necessarily in South Africa (Roberts et al, 2003). There were also a large number of cross-listing where corporations were listed on more than one stock market.

During this period, there were large inflows into South African equities that did not occur because of these offshore cross listings but occurred because of the increase in portfolio flows to emerging markets, including South Africa. The high level of portfolio capital inflows since the transition from apartheid and a few large inward foreign direct investment deals<sup>64</sup> led to a large increase in foreign share of ownership of the market capitalization of the Johannesburg Stock Exchange. At the same time, the internationalization of these large corporations meant that a larger proportion of their actual business operations occurred outside of South Africa. As a result, their activities in

---

<sup>64</sup> Some of this FDI was due shifting primary listings offshore that re-categorised the equity of companies owned by companies that listed abroad as foreign owned. The other big FDI was when the Industrial and Commercial Bank of China bought 20% of Standard Bank and Barclays bought controlling interest of ABSA.

the equities market in South Africa have become increasingly detached from activities in the real sector of South African economy.

Former South African giant corporations restructured their South African businesses to focus on their core businesses and at the same time increased their investments abroad. Since 2000, there was restructuring and internationalization of the conglomerates and there was a decline in their share of control over their market capitalization of the JSE. During this period, the control over market capitalization of the JSE shifted towards South African institutional investors and foreign portfolio investors.

**Table 4.2: Broad composition of ownership of JSE-listed companies at the end of 2016**

Type of owner	% of JSE market capitalization
<b>Foreign investors</b>	<b>38%</b>
<b>Ownership through South African institutional investors</b>	<b>48%</b>
• Retirement funds	24%
• Long-term insurance companies	5%
• Collective investment scheme companies	5%
• Investment managers	14%
<b>South African: Other investors</b>	<b>14%</b>
<i>Additional item: Cross-holdings of JSE-listed companies<sup>1</sup></i>	9%

Source: Adapted from National Treasury (2017)

Note 1: Estimate of the cross-holdings of JSE-listed companies, i.e., where one listed company holds the shares of another listed company. Based on an analysis of the major shareholdings in the Top 25 South African companies, representing around two-thirds of the total market capitalization of South African listed companies at the end of 2016.

Table 4.1 has been adapted from a 2017 report of the National Treasury (NT), Government of South Africa, which shows that 48% of ownership on the JSE was through South African institutional investors and that foreign investors owned 38% of the market capitalization of the JSE in 2016 (National Treasury, 2017, p. 26). The NT report also said that FDI, (where foreign owners have 10% or more ownership of a company)<sup>65</sup> made up the majority of foreign control on the JSE and stated that FDI in JSE listed companies amounted to 49% of GDP and foreign portfolio ownership was 44% of GDP in 2015 (ibid., p.p. 7-8). They remarked that most portfolio ownership was by foreign institutional investors (ibid. p,9).<sup>66</sup> However, foreign ownership in the form of FDI seems to be severely understated because FDI is often channeled through locally listed companies (ibid, p.9).

The NT report gives examples of 6 large corporations (all were amongst the top 50 by market capitalization on the JSE) that are listed as South African when it is well-known that their ultimate ownership is by a foreign company. I calculate that that these 6 alone accounted for 6% of the total market capitalization of the JSE.<sup>67</sup> The discussion above shows that South African institutional and foreign portfolio investors control a very large share of the market capitalization of the companies listed on the JSE. A rough

---

<sup>65</sup> The NT report says: “In statistical terms, an ownership threshold of 10 percent is typically used to define a direct investment relationship, although in practice relationships between affiliated entities can be more complex. Equity, inter-company loans and reinvested earnings all form part of the FDI relationship between the parent company and its international subsidiaries and affiliates (ibid., p.7).

<sup>66</sup> The NT report explains that “The composition of ownership by domestic and foreign investors is calculated from the market capitalization of shares held on Strate, i.e., excluding the offshore share registers of foreign-domiciled companies (ibid., p.8). Strate is Share Transactions Totally Electronic, the electronic settlement system for transactions on JSE Limited and off-market trades.

<sup>67</sup> The six companies were: Anglo American Platinum (77% owned by Anglo American PLC, UK), Barclays Africa (23% owned by Barclays Bank PLC, UK), Massmart (52% owned by Walmart, US), Nedbank (52% owned by Old Mutual PLC, UK), Standard Bank (21% owned by Industrial and Commercial Bank of China), and Vodacom (65% owned by Vodacom, UK).

calculation using the data in the 2017 NT report leads one to estimate that a conservative 40% of foreign investors are foreign portfolio investors which would amount to 15% ownership of the total JSE market capitalization (i.e. 40% of 38%). When added to the 48% owned by South African institutional investors the two groups made up more than two-thirds of the JSE's market capitalization in 2015.

I refer to Lazonick and O'Sullivan (2000) and Crotty (2002) in my discussion of financialization in Chapter 2. They explain the key role of institutional investors in the rise of the shareholder value moment in the US from the 1970s. Lazonick and O'Sullivan (ibid.) point out that institutional investors and management consultants have been central to promoting shareholder value as a principle of corporate governance across the globe. Ernst and Young (2002) in a review of South African mergers and acquisitions for 2001 provide support for the view that the influence of the shareholder value movement has grown in South Africa as well:

Shareholder activism has been slow to take off in South Africa, but like all global trends it is one, which is catching up with us very quickly. The prominent South African companies that have listed offshore over the last two or three years have already been exposed to the higher level of transparency demanded in global markets. South African companies with a more domestic orientation are under pressure to emulate their global peers (p.27).

Ernst and Young (2002) were referring to the role of the shareholder value movement and activist behavior of institutional investors, whose influence and control over the market capitalization of the JSE grew steadily through the 1990s and seemed entrenched during the early-2000s. They also recognized that the companies that moved their primary listings abroad had very quickly been subjected to the pressures of the shareholder value movement.

The very high percentage of ownership by foreign portfolio investors and South African institutional investors reinforces the view that there has been increasing power of the shareholder value movement and an associated focus on high short-term returns demanded of South African corporations. Of course, a large share of the foreign direct investment ownership belongs to the former South African corporation that shifted their primary listings abroad. The corporations that internationalized, including some of the largest corporations that moved their primary listings abroad and a great many others that have cross-listings, would have been pressured to increase short-term returns, to restructure to simplify corporate structures and to focus on core businesses by the shareholder value movement.

In the case study on the Anglo American Corporation later in this chapter I will refer to how Anglo was forced to comply with demands of the shareholder value movement soon after they moved their primary listing to London (Carmody, 2002). Even though Anglo wanted to retain some non-core businesses, pressure by the shareholder value movement on Anglo forced them to focus more narrowly on core business than they had intended.

Another area of pressure from the shareholder value movement has been increased returns in the form of dividends and share buybacks. Lazonick and O'Sullivan describe the pressure on US corporations to "downsize and distribute" (2000) instead of "retaining and reinvesting" their funds. They point out that manager interests have aligned with the owners because of the reward structure for managers based on share price performance. This realignment of manager's interests and the increased downsizing and distributing are seen as an important aspect of the financialization of NFCs. Pressure



to maximize shareholder value leads to increased distributions but these misallocate profits away from investment towards increased dividend payments and share buybacks.

Share buybacks were allowed in South Africa in 1999. The easing of regulations with regard to buybacks were not accompanied by adequate measures to track the extent of share buybacks. The JSE requires companies to announce the repurchases on the Stock Exchange News Services (SENS) only once the 3% limit has been reached. The reporting of share buybacks is also far from adequate because subsidiaries do not have to announce repurchases of their holding companies' stocks. On top of that monitoring of compliance has not been well monitored.

Wesson (2015) in her Ph.D. dissertation provides a detailed study of share buybacks in South Africa. Her study covers the period 1999, when share buybacks were allowed, until 2009. Wesson (ibid.) estimated that over the period of her study that JSE listed firms bought back R137 bn worth of shares in addition to the R248 bn paid out in dividends. These estimates exclude giant corporations that moved their primary listings abroad, such as Anglo American Corporation.

The investment and fixed capital formation trends presented in Chapter 1 are an indication that the changes in corporate structure, cross-listings and increased activities in foreign markets, and increased pressure to increased short-term shareholder returns through higher dividend payments and share repurchases have not translated into improved investment performance and the build-up of real fixed capital. A realistic appraisal also shows that instead of the structural transformation to deepen and diversify the productive base, there has been deindustrialization. In other words, the type of

accumulation required by South Africa that would transform the economy has not occurred.

#### **4.4 The changed corporate landscape after the major corporate restructuring of the 1990s and early-2000s**

This section will discuss changes in the Johannesburg Stock Exchange as a way to understand the changes in the South African corporate environment. The main period of the discussion will cover changes since 2000 to understand the effects of the large-scale corporate restructuring and deconglomeration that began during the 1990s. This section will draw heavily on recent work done by the CCRED<sup>68</sup> that focused on the top 50 companies by their share of market capitalization of the JSE (see Bosiu et al, 2017 for a report on their research). They find that these 50 companies constituted 86% of the capitalization of the JSE's total market capitalization in 2017. They also find that lead firms by sector on the JSE have not changed much since 2000. In other words, the same large firms continue to dominate South Africa's markets.

Bosiu et al (2017, p.9) say that, "...within the top 50 firms, several sectors including banking, mining, consumer goods, consumer services, insurance and investment services have remained essentially the same in terms of firms represented over the period". In fact, there has been consolidation and increased concentration as corporations have merged.

The level of concentration in the South African economy is staggering. Woods et al refer to a Competition Commission study (see Government Gazette No. 41294, 1

---

<sup>68</sup> The Centre for Competition, Regulation and Economic Development based at the University of Johannesburg

December 2017) of merger reports, which they say "... involve careful market definition". They report that the Competition Commission's study found unilateral dominance, i.e., where that a single firm has more than 45 percent market share, in considerable number of markets. They say:

In the merger reports reviewed from 2009 to 2016, dominant firms were identified in 294 distinct product markets. Using the Hirschmann-Herfindahl Index (HHI), the study found the following broad sectors to be highly concentrated:<sup>69</sup> Communication Technologies; Energy; Financial Services; Food and agro-processing; Infrastructure and construction; Intermediate industrial products; Mining; Pharmaceuticals; Transport. (ibid, p.22)

An area of CCRED's research that is of particular interest for this chapter is on the internationalization of the top 50 companies by market capitalization on the JSE. One important way to measure the extent of this internationalization is to consider how many of the top 50 listed companies were cross listed on the JSE and other stock exchanges.<sup>70</sup> Bosiu et al (ibid, p.10-11) report that 23 of the top 50 companies on the JSE were cross listed in 2017. Moreover, the 23 that were cross listed were larger by market capitalization than the other 27 in the top 50. The 23 cross-listed companies accounted for 65% of the total market capitalization of the JSE. The remaining 27 companies in the top 50 had a cumulative market capitalization that amounted to only around 20% of the market capitalization of the JSE.

Bosiu et al (ibid) also did an examination of the top 50 companies separated into the different categories of sectors reported by the JSE. They calculated that 45% of the market cap of the top 50 companies was from companies categorized as part of the JSE's

---

<sup>69</sup> This is calculated as the sum of the squares of the market shares. A score or more than 2500 is taken to indicate the sector is highly concentrated.

<sup>70</sup> Considering just cross listed companies underestimates the level of internationalisation of listed companies because many companies listed only in South Africa may have international operations.

consumer goods sector. The market cap of the companies categorized as part of the mining sector was the next largest of the top 50 categorized by sector and accounted for 17% of top 50's combined market capitalization. The top 50 companies categorized as part of the media and banking sectors each accounted for 8% of the total capitalization of the top 50 companies. The remaining 9 sectors accounted for 4% or less of the total market capitalization of the top 50 companies using this method.

However, the share of market capitalization does not provide the full story with regard to the extent of internationalization of the top 50. Bosiu et al (ibid, p.p. 12-13) point out that two corporations SAB Miller (SAB) and British America Tobacco (BAT) alone accounted for 35% of the total market capitalization of the top 50 companies. However, according to BAT's 2014 Annual Report, BAT had only 15%<sup>71</sup> of its shares on the South African branch register.

Bosiu et al (ibid) show that the many of the cross listed companies in the top 50 on the JSE have much of their actual operations outside of South Africa. As a result, the South African operations of these corporations were relatively small compared to the entire company. Not all companies provide the geographical breakdown of their operations in different countries. Bosiu et al (ibid.) calculated the proportion of South African operations for the few companies that provided the geographical breakdown: Naspers 5.5%, Richemont 8%, BAT 18%, South32 10%, and Anglo American Plc 7%. Most of these companies were predominantly South African operations during the apartheid era.

---

<sup>71</sup> Fifteen percent of BAT's shares on the JSE register amounts to 290 million shares out of BAT's total 1.9 billion shares in 2014.

An interesting example that illustrates the changes to a South African company as it internationalized is Naspers, which is shortened from the Afrikaans name that translates into National Press. Naspers was formed by J.B.M. Hertzog in 1915 one year after he set up the Nationalist Party. The company was closely associated with the Nationalist Party through to the end of apartheid. Naspers was listed at 49<sup>th</sup> position on the JSE in terms of market capitalization in 2000 and made it to 3<sup>rd</sup> position in 2017. The main reason for this large growth in market capitalization that caused Naspers movement up the ranks of the top 50 on the JSE was an acquisition of a 35% stake in Tencent, the Chinese gaming and technology company, which grew over 200 times since between 2001 and 2017. And, as mentioned above only 5.5% of Naspers revenue in 2017 was attributable to its South African operations.

Bosiu et al (2017) find that overall profit rates are relatively high for the top 50 (they calculated average profits in terms of return on assets (ROA) from 2011 to 2015).

**Table 4.3: Return on assets (ROA) and return on equity (ROE) for the top 50 JSE companies for selected sectors**

	ROA	ROE
Consumer services	20%	35%
Telecommunications	17%	38%
Banks and insurance	2%	18%
Mining	11%	23%

Source: Bosiu et al (ibid)

Bell et al (2018) summarize the problems with oligopolistic control over most sectors of the South Africa economy and link the issue of profitability and market power.<sup>72</sup> They say:

The bottom line is that companies have market power and are using it to earn good profit margins but investment remains weak. The opening-up of the economy to a diversity of participants has not happened and, if anything, concentration and vertical integration within sectors has increased since 1994, reinforced by high barriers to entry. (ibid. p. 21)

While profits were relatively high, there has been large growth in company reserves from R242 billion in 2005 to R1.4 trillion in 2016 (Bosiu et al, ibid). This high level of retained earnings undermines the view that the low investment level in South Africa is due to low savings (ibid, p. 20).

A further example of the separation of the financial and real economy in South Africa can be found amongst the top 50 companies by market capitalization that fall into the property sector of the JSE. Bosiu et al (ibid.) say that while many property sector companies have had rapid growth in market capitalization, a number of the companies do not have significant operations in South Africa nor do they seem to have any plans to invest in South Africa.<sup>73</sup> In other words, these companies seem to have listed on the JSE just to raise capital in South Africa to use outside of the country.

---

<sup>72</sup> A decade earlier, the research of the 'Harvard group' for the National Treasury found that mark-ups were significantly higher in South African industries than globally (Hausmann and Andrews 2009, p. 51). They also found that the margins for listed companies relative to non-listed companies in South Africa were double that of the world average (ibid.).

<sup>73</sup> Bosiu et al identify these companies as Hammerson Plc, Intu Properties Plc, New Europe Property Investments Plc and Capital & Counties Properties Plc, all in the property sector, do not have significant operations in the country.

#### **4.5 Corporate restructuring case study: Anglo American PLC**

Anglo American was by far the most important South African company for much of the Twentieth Century. The history of South Africa (since the discovery of diamonds and gold) is intimately tied to the development of AAC. All economic sectors were shaped by Anglo's involvement and diversification. At some time in its history AAC has been the world's biggest gold, platinum, and diamond producer (Innes, 1984). It also ran the world's most successful global cartel, the Central Selling Organization (CSO). Until the 1980s it was a dominant player in South African finance through its control of First National Bank. Innes (1984) said that Anglo was a highly internationalized company early on and explains that by 1980 it was the largest foreign investing company in the US, larger than Volkswagen and BP. Summa (1988) described Anglo as a multinational pillar of apartheid because its strong linkages to large, powerful corporations of countries of the US and Europe provided support to the apartheid system.<sup>74</sup>

AAC was a participant in the 1980s conglomeration of many of the largest corporations in South Africa and by the 1990s the AAC had control over 100 subsidiaries in South Africa. Manufacturing accounted for about 30 per cent of its revenues (ibid.). By the time of the first democratic elections in 1994 the AAC's activities collectively accounted for 43.3 per cent of the JSE's market capitalization (Goldstein, 2000). The

---

<sup>74</sup> Anglo's links with these other multinational corporations included agency and franchise agreements' such as its links with the Ford Motor Company maintained after Ford divested from South Africa in 1987. Ford provided licensing of the use of the Ford Trademark and continued to provide management and technical assistance as well as supply of components and parts. Anglo reported in its 1988 Annual Report that the South African operations would remain unchanged producing Fords and supplying them through its Ford dealerships.

Oppenheimer family directly owned only 8.1 per cent but had ultimate control due to the complex pyramid structure of ownership.<sup>75</sup>

The manufacturing interests of Anglo before the restructuring were not limited to the MEC. It had significant holdings and often control of certain markets in construction, printing and publishing (it controlled the largest newspaper group), automobiles (retail and manufacturing) and freight services. Anglo also owned 10% of Barlow Rand and had significant influence over the company. In 1970 Barlow Rand owned more than 70 manufacturing companies and increased this number steadily (in 2000 it was renamed as Barlow World an international industrial company).

After restructuring of the 1990s the only manufacturing outside of the MEC Anglo was involved in was paper and publishing (Mondi Ltd in South Africa) and sugar and starch (in the Tongaat-Hulett Group, which also produces aluminum).<sup>76</sup> By 2007 it had sold off these ‘non-core businesses. It held onto Bort Longyear in South Africa, which produced tools and equipment and contracting services. Bort Longyear provided equipment and services to the international mining industry. However, Anglo chose to shift the engineering and design segments of that business to Europe before it sold it to a private equity company in 2005. Thus, the one area where South Africa had built a technological lead has been shifted offshore. Over time, Anglo unloaded all its non-

---

<sup>75</sup> For example, in 1994 De Beers Consolidated owned 38.6% of Anglo and 10% of the Anglo American Investment Trust (AAIT), but De Beers was in turn controlled by Anglo through Anglo’s 29.4% stake in De Beers Centenary, while AAIT (52% owned by Anglo) owned a further 25.8% directly of De Beers Consolidated and 23.4% of De Beers Centenary. Further down the pyramid, 30% of Mondi Paper was owned by Anglo, together with a further 17% owned by De Beers and 53% by AMIC (itself 49.9% owned by Anglo and 26.7% by De Beers). (see Goldstein, 2010, p. 557)

<sup>76</sup> The information about restructuring was from various years of AAC Annual Reports between 1995 to 2010



mining subsidiaries in response to pressure from the shareholder value movement to focus on core businesses.

Roberts et al (2003) and additional information from Anglo's Annual Reports list some of the major developments in AAC's restructuring:

- Unbundling of JCI, to separate Anglo American Platinum (Amplats) in 1995.
- The merging of gold interests under AngloGold in 1997 and the restructuring of platinum holdings under Amplats in the same year.
- In 1998, Anglo merged its financial service interests of FNB and Southern Life with RMB to create FirstRand and then swapped its 15.3 per cent stake with Rembrandt for 7.1 per cent of Billiton and 11.3 per cent of Goldfields in 2000.
- After merging with Minorco in 1998, AAC listed on the London Stock Exchange in 1999.
- The de-listing of De Beers and the breaking of the AAC-De Beers cross-holdings in 2001, which meant the Oppenheimer's essentially having control of De Beers, but reducing their stake in AAC to 5.1 per cent and to a large extent losing control of AAC.
- Diversified industrial interests were unbundled, including AECI and Bevcon (with holdings in SAB)
- It looked set to take control of South Africa's main iron ore deposits through acquisition of stakes in Kumba and Avmin in 2002, but has withdrawn from Avmin following prolonged proceedings of the Competition Tribunal and Appeal Court.
- International acquisitions in minerals such as Colombia's Cervejon Centrale Coal and Cerrejon Zona Norte, Australia's Shell Coal, Chilean copper mines Empresa

Minera de Mantos Blancos and Disputada, Australia's Acacia Resources and nickel producer, Anaconda

- International acquisitions in paper and pulp such as interests in Brazilian firm Aracruz Cellulose, Russian firm Syktyvkar Forest Enterprise, and French packaging firm La Rochette.
- Construction materials and aggregates in Europe include the UK's Tarmac and Spain's Mavike.
- Highveld Steel and Vanadium was sold in 2007 (marking an increase of Anglo's exit from steel and mineral beneficiation),
- November 2012, Anglo completed the sale of steel maker Scaw South Africa Ltd unit and its connected companies Scaw metals has operations in Chile, Peru, the Philippines, Canada, Australia and Italy.

The restructuring led to a simpler corporate structure by combining several companies.

As a result of the restructuring Anglo American became one of the world's largest mining and natural resources companies, interests in gold, platinum, and diamonds, and an important global player in coal, base and ferrous metals, industrial minerals, and forest products.

Carmody (2003) says, "By moving their headquarters to London, and financially delinking from South Africa, these companies are able to unlock 'shareholder value'.

While the stock market capitalization of many companies in advanced capitalist countries, such as the US, are above their net asset values on the basis of projected future

profits, Anglo's market capitalization was 22 per cent below its net asset value in 1995" (p.p. 263-4).

Anglo still has substantial assets in South Africa but as a result of the defensive actions taken during the 1990s to protect its assets from a future black government in South Africa and the refocus on core businesses. South Africa was the location of 25% of Anglo's assets in 2016 and only 7% of its revenue (AAC, 017 Annual Report).

Anglo demerged Mondi in 2007 and withdrew from the paper, pulp and packaging sector. An examination of paper and packaging<sup>77</sup>, shows that it had increased its European holding in paper and packaging during the 2000s. Almost all the turnover from paper and packaging in Europe was from value added products. About 1/3 of the graphic papers and packaging papers had been produced in South Africa. While the lower value-added products like lumber, wood chips and mining timber were produced only in South Africa. Thus, before unloading its paper and pulp interests, Anglo shifted the high value-added and higher technology parts of the business to Europe.

The restructuring of Anglo did not always go according to the plans of the executive management of the group. After shifting their primary listing to London the group quickly developed tensions with the shareholder value movement. Activist shareholders and the business media pressured management to restructure faster and to get rid of 'non-core' business. Carmody (2002) says that former Anglo CEO Tony Trahar told the media that management would decide on the definition of core businesses. Anglo wanted to remain active in certain upstream manufacturing businesses. They were soon to

---

<sup>77</sup> Anglo American Annual reports 2000 to 2007.

find that the activist shareholders would force them to unbundle and would define their core business as mining.

Anglo was largest company of the top 40 listed on the JSE in terms of share buybacks.<sup>78</sup> It is estimated that between 2006 and 2007 Anglo repurchased R70 billion shares (Anthony and Tambo, 2017). It turned out that Anglo's large repurchase would cause it to have liquidity crisis soon after the global financial crisis when commodity prices dropped. They were forced to suspend their dividend in 2010.

The restructuring and relisting of Anglo American has been one of the most important changes in the South African economy. It indicates an important withdrawal from all sectors except for certain mining sectors by what was the largest and most powerful corporation in South Africa during the transition to democracy. Anglo and the other conglomerates through their dominance divided up the economy amongst themselves into highly concentrated sectors with high barriers to entry. The big groups historically played a role that supported subsidiaries through finance and management. Lewis (1995) reports that the coordination and support amongst the South African conglomerates was not that great but he also comments that they would generally not let a subsidiary go bankrupt.

As discussed with reference to the minerals and energy complex (Fine and Rustomjee, 1996), the areas of manufacturing that grew were those that had close linkages to the mining and minerals sectors. Anglo was involved in sectors such as forestry and timber as well as paper and pulp, engineering and mining equipment and transport and construction because these supported their mines and later the large mineral

---

<sup>78</sup>Colin Anthony and Orin Tambo of Intellidex in an Article on Moneyweb website on 13 March 2017 <https://www.moneyweb.co.za/in-depth/moneyweb-investor/share-buybacks-in-whose-interest-are-they/>

beneficiation projects. These manufacturing and construction firms would provide inputs to the mines. The engineering and mining equipment sectors would both provide inputs and process the outputs to produce intermediate and final products. Before unbundling the forestry, paper and pulp and the engineering subsidiaries Anglo had embarked on mergers and acquisitions in these sectors. Overall, as mentioned with regard to the shifting of high value added activities abroad in the paper and pulp business and the movement of engineering and design of some of Borat Long year the engineering firms to Europe. The internationalization seems to have left these sectors weaker. However, the poor performance of manufacturing sectors overall (see Chapter 1), particularly those with linkages to mining and minerals, would have been negatively affected by the declining commodities prices from the time of financial crisis. The South African steel producers, have been much affected, particularly as China had been exporting steel at low prices. Former Anglo business Highveld Steel and Vanadium (HSVC) was bought by the Russian group Evraz in 2007 during a profitable period for the steel industry. Evraz HSVC enjoyed only 2 years of profits before the demand for and steel price collapsed and Evraz shut down HSVC in 2014.<sup>79</sup>

Anglo's movement of its primary listing to the LSE saw it follow an ambitious acquisition campaign across the globe while unbundling and selling off its non-mining subsidiaries in South Africa. However, some of these acquisitions, such as the Minas-Rio Iron Ore mine in Brazil, required much debt and added to the company's difficulties during the post-crisis period when commodities prices were lower and labor unrest in South Africa's platinum mines led to losses in AngloPlats. By 2015 it had reported losses

---

<sup>79</sup> <https://mg.co.za/article/2018-02-09-00-highveld-steel-ticks-over-gearing-up-to-rise-once-again>

of US\$5.5 billion and embarked on a restructuring plan while Moody's downgraded its debt to junk.<sup>80</sup> There was an improvement in 2017 with a profit of US\$ 5.5 bn a reduction in debt of US\$4 bn and after no dividend in 2016 a relatively generous dividend of US\$1.02 per share.<sup>81</sup>

The restructuring and internationalization of Anglo saw Anglo's share of the JSE's market capitalization declined to just 2.2%. Its South African operations accounted for 7% of its revenue, while 52000 of its 69000 employees were in South Africa in 2017 (ibid). It represented one version of the massive corporate restructuring that occurred in South Africa where a corporation that grew to become dominant in the South African economy responded to the political change and global corporate restructuring by unbundling its conglomerate structure and internationalizing. It restructured with very little input and regulation from the post-apartheid government and helped to enrich many politically well-connected members of the new black business elite. Its strategy and structure was much influenced by the shareholder value movement after it shifted its primary listing to the LSE. As a result, it sold off all its South African businesses except for mining and within mining focused on strategic deals to be dominant not only in South African markets but globally too (for example in Platinum, and diamonds). After its restructuring, its international operations made much larger contributions to its income and profits but through its dominance in South African markets it had a bulwark against tough global market conditions and international competition. Therefore, Anglo in its media announcements and Annual Reports, still has to work to convince the international

---

<sup>80</sup> John Gapper, "A requiem for Anglo American, the octopus of South Africa", Financial Times 16 February 2016, <https://www.ft.com/content/5ba52f88-d55d-11e5-829b-8564e7528e54>

<sup>81</sup> Anglo American 2017 Annual Report

share buying community that it has moved beyond its roots in South Africa and is a global company focused on its core mining business.<sup>82</sup>

The Anglo case study is more than indicative of one type of restructuring by big business it is indicative of the change in the South African economy since the transition to democracy because for a large part of the Twentieth Century Anglo was the dominant business group in South Africa and was much larger than the other members of the “six axes of capital”.

#### **4.6 Conclusion**

Chapter 1 shows that during the period 1990 to 2016 manufacturing sectors generally had either close to zero or negative growth in capital stock. The value-added and relatively more labor intensive sectors have fared the worst while the processing, capital intensive sectors, generally with stronger linkages to MEC core sectors have done less poorly. Overall, the path dependence in the economy around mining and minerals extractive sectors has been exacerbated but at the same time the deindustrialization and growth in finance and retail services points to a growth path that may become increasingly unstable.

Chapter 2 refers to Hein (2012) and his suggestion that growing shareholder power will lead to three possible regimes: ‘finance led growth’, ‘profits without investment’ and ‘contractive’ regimes’. He finds that the finance led growth regime requires a constellation of factors that make it unlikely and the other two are unstable.

---

<sup>82</sup> See for example the article referenced in the previous footnote.

If one takes into account Heintz (2002) and the importance of inequality and political and redistributive struggles when considering accumulation, the outlook for South Africa is even more pessimistic. The solutions offered by Heintz (2002) (see discussion in Chapter 3.3.3) to offset the skewed redistributive outcomes of increased accumulation in a profit led regime have not been adequately implemented and, as I show in Chapter 1, inequality and unemployment have worsened in South Africa. While allocation of capital has been towards non-productive sectors and speculation in real estate and financial asset markets.

The changes in the South African economy should be understood within the context of domestic political and economic transformation. Given the available empirical evidence presented here, which I interpret within the political economy analysis of the South African economy discussed in Chapter 3, I argue that the largest South African corporations have become more sensitive to the demands of the financial sector, particularly the shareholder value movement. Recent corporate restructuring and the content of annual reports of these giant corporations are indications of this sensitivity.<sup>83</sup>

Lazonick and O'Sullivan (2000) argue that the predominance of the shareholder value approach to corporate governance has been accompanied by a shift from patient to impatient capital. In other words, the increased influence of financiers and the shareholder value movement over corporate executives has caused a shift in management behavior where investors and management are less concerned with building and nurturing businesses over a long period of time but have become focused on short-term returns. This behavior is marked by big business moving capital out of South Africa and

---

<sup>83</sup> For example, the Annual reports of Anglo American Corporation referenced in the case study below in this chapter



increasing their efforts to internationalize while at the same time increasing their control over South African markets to extract rents in order to respond to intense global competition and the demands for high short-term returns from global institutional investors in pursuit of more shareholder value.

## CHAPTER 5

### THE IMPACT OF CAPITAL FLOWS ON THE SOUTH AFRICAN GROWTH PATH SINCE THE END OF APARTHEID

#### 5.1 Introduction

This chapter will consider international capital flows into and out of South Africa during the post-apartheid era. It will examine the types of flows that have been entering the country and how they were absorbed into the economy. It will consider the effects of these capital flows on the economy taking into account the broad range of literature that links financial crises to volatile surges in capital flows. It will also examine how capital flows have influenced South Africa's economic growth path since the end of apartheid.

The post-apartheid government had a policy of "gradual" liberalization of exchange controls aligned to the adoption of neoliberal macroeconomic policy in the Growth Employment and Redistribution (GEAR) program in 1996. They significantly eased the ability of South African residents to withdraw capital from the economy. Nonresidents were allowed virtually free movement of capital into and out of the economy. Current policies allow more and more South African capital to leave the country. The government hoped that a large share of the capital required for domestic investment, employment creation and development of the economy would come from foreigners. Within this approach, the government's policies on capital controls do not adequately differentiate between long-term foreign direct investments and short-term capital flows. Instead, senior government officials have argued that liberalization of financial markets would lead to deepening of financial markets.

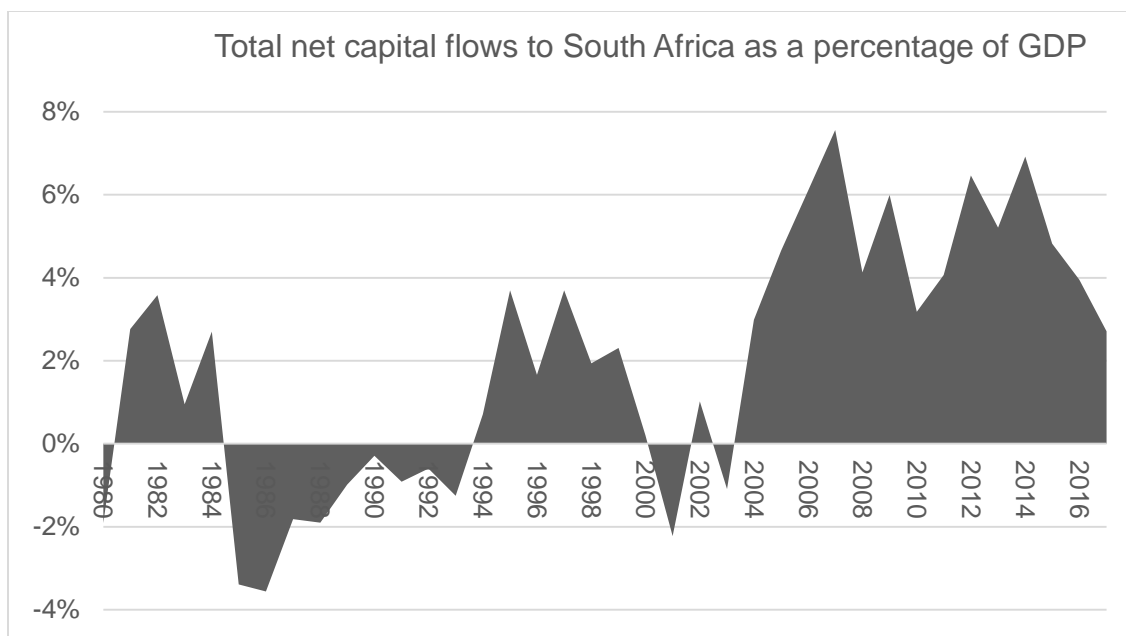
About a decade after the adoption of GEAR, when assessment of the Asian financial crisis led to mainstream economists' views about capital account liberalization

to soften, the National Treasury sought advice on economic policy from the “Harvard group”. This group recommended even further liberalization of outflows (Hausmann, 2008). Overall, their recommendations seemed to reinforce the National Treasury’s commitment to neoliberal economic policies.

The events of the global financial crisis and the large but often grudging shifts in many mainstream economists’ views with regard to macroeconomic economic policy and capital controls seem to have had little impact on the South African National Treasury’s approach to macroeconomic policy and capital controls. They continued to liberalize financial flows and even offered a second amnesty to South Africans who held money outside of the country illegally. Even if this policy led to more inflows of capital it was not associated with more and better investment.

This chapter provides an assessment of the impact of capital flows on the South African economy over the past few decades. In so doing it contributes to international financial literature on South Africa because it is one of very few papers that examine the absorption of capital flows into the economy. It also extends the South African literature because it uses heterodox analyses of financial crises to examine volatility and instability caused by capital flows in the South African economy. Furthermore, it is one of very few economics studies on South Africa that links the country’s economic growth path to financial liberalization and the type of financial flows crossing the country’s border.

Figure 5.1: Total net financial flows as a percentage of GDP



Source: Calculated using South African Reserve Bank (SARB) online historical data

The end of apartheid and the relatively peaceful transition to democracy, combined with the introduction of financial market liberalization in 1995, led to large increases in the amount of capital inflows into South Africa. Figure 5.1 shows net capital flows as percentages of GDP from 1980 to 2017. This chapter examines the effects of more domestic liquidity as a result of the large net capital inflows and argues that surges in inflows are of concern because they increase potential for financial risk and instability in the economy. This aspect of the paper draws heavily from the analysis of financial crises in Palma (2003) who argues a ‘Kindlebergian’ proposition that the effects of massive surges in inflows on domestic liquidity are “key to understanding” financial crises. Many developing countries experienced financial crises since the mid-1990s.<sup>84</sup> Each of these

<sup>84</sup> Mexico, South Korea, Thailand, Indonesia, the Philippines, Malaysia, Russia, Brazil, Turkey, Argentina and Uruguay had financial crises since the mid-1990s. Crises in developed countries started with the collapse of the dot-com bubble in the US in 2001 and the collapse of the US sub-prime mortgage crisis in 2007-2010 that catalyzed the global financial crisis of 2007-2008 and the European debt crisis from 2009.

countries had very different methods in which they absorbed the large increases in capital inflows. Palma convincingly shows that large capital inflows are the key to explaining financial crises in all these countries despite their different ‘absorption’ methods.

Foreign direct investment is an important element of the South African government’s economic policy. They seem to believe that their chances of attracting foreign direct investment will improve if they show investors that they are committed to maintaining orthodox macroeconomic fundamentals and other elements of the Washington Consensus<sup>85</sup>. These attitudes have not changed since the 2008 to 2010 global financial crisis, even though, former bastions of orthodox economic policies and advocates of financial liberalization, such as the IMF and OECD, now admit the destabilizing role of uncontrolled, cross border financial flows and concede that regulations to control flows may be justified in certain circumstances.<sup>86</sup>

Notwithstanding the changing perspectives of proponents of economic orthodoxy, the South African Government does not seem overly concerned with the disruptive effects that capital flows can have on a country’s financial system and economy. This lack of concern exists despite numerous financial crises in developing countries since the mid-1990s, South Africa’s debt crisis in the mid-1980s and the South African currency crisis in 2001. Even the estimated loss of more than 1 million jobs as a result of the 2008

---

<sup>85</sup> See Williamson (1999) for an initial discussion of the Washington Consensus.

<sup>86</sup> See for example, the 2010 working paper of the IMF “Capital inflows: The role of controls” by Ostry, Ghosh, Habermeier, Mahvash, Qureshi & Reinhardt, and the OECD’s 2011 Economic Outlook, Chapter 6: Getting the most out of international capital flows”. However, the overall approach by these institutions remains framed within a neo-liberal economic approach and biased towards open capital accounts.

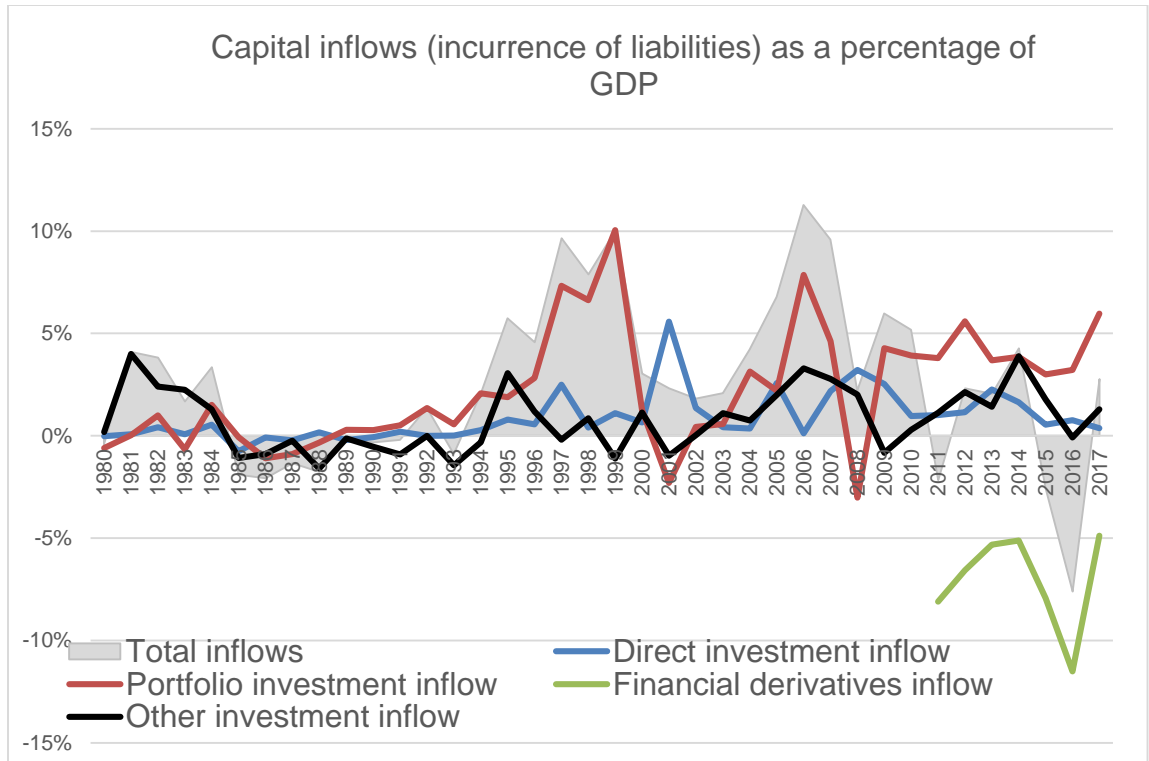
to 2010 global financial crisis has not deterred the South African Government from continuing its program to further liberalize exchange controls.<sup>87</sup>

Grabel says that many developing and emerging countries as well as a number of countries on the European periphery put in place wide-ranging, assorted controls on both inflows and outflows of capital. She declared that “From a pre-crisis vantage point, the boldness, range, and creativity of the policy interventions across a significant swath of economies were unexpected (Grabel, 2016, p. 1).” In other words, South Africa would not have been unusual if it had chosen to implement some forms of capital controls in light of large, volatile and destabilizing flows of capital since the 1990s and, particularly after the global financial crisis. However, South Africa chose to remain open to the destabilizing effects of uncontrolled capital flows.

**Figure 5.2: Capital inflows by type as percentages of GDP**

---

<sup>87</sup> The loss of around 1 million jobs during the crisis was referred to by Finance Minister Pravin Gordhan in his preface to the 2011 document of the South African National Treasury called “A safer financial sector to serve South Africa better”. The estimate is drawn from Statistics South Africa’s Quarterly Employment Survey data.



Source: Calculated using South African Reserve Bank (SARB) online historical data

Most of the capital flows entering South Africa have been short-term portfolio flows (see Fig. 5.2). The bulk of these flows have been absorbed by the private sector. There has been an accompanying surge in private sector access to credit (see Fig. 4.3). I show that the private sector has not utilized their improved access to credit for productive investment. Instead, easier access to credit has supported existing negative trends in the economy. For example, the exuberance in the stock market experienced from the early-1990s that led to higher share prices seems to have continued and to have been supported by easier private sector access to credit. The same applies to growth of imports and household consumption. In addition, capital flows are positively correlated with large-scale capital flight from the South African economy. Therefore, the surge in capital inflows was not associated with economic activity that would lead to long-term growth in

the economy. Instead, one may associate the surge in net capital flows with increasing exuberance that leads to higher share price indices, more imports, growth in private consumption and high levels of capital flight. The reversal of net capital inflows such as those after the 1997 Asian Financial Crisis, the 2001 Dotcom crash, and the 2007-08 global financial crisis were associated with significant negative impacts on South Africa's economic performance.

The macroeconomic and financial instability associated with large movements of cross-border capital flows have weakened the economy over time. The liberalization of cross border financial flows and the effect of the type of capital flows that entered the economy had a marked impact on the types of investment and the formation of capital stock in the economy since 1994. Therefore, Government has not been able to achieve their stated economic goals to increase economic development, reduce unemployment and tackle the legacy of high inequality. Instead, the growth path of the economy has led it away from sustainable economic development, has been unable to reduce high unemployment and caused inequality to increase I described the changes associated with financial liberalization and deregulation of cross border capital flows in South Africa as part of the financialization of the South African economy in Mohamed, (2010) and with my co-authors in Ashman, Mohamed and Newman (2013) elaborated on these changes.<sup>88</sup>

---

<sup>88</sup> Ashman et al (2010), Mohamed, (2010), Ashman, Mohamed and Newman (2013), and Isaacs (2016) discuss capital flows and its relation to financialization of the South African economy. Note that I (Mohamed) was Director of the CSID and my co-authors Samantha Ashman and Susan Newman were Senior Researcher staff of the Corporate Strategy and Industrial Development Research Programme at the University of the Witwatersrand while Gilad Isaacs is still with the CSID. A large proportion of the recent literature on financialization of the South African economy has come from current and former CSID researchers). Teles (2012) considers capital flows and financialization in South Africa in his PhD dissertation and Alami (2017) published a paper on South African capital controls based on his PhD dissertation.



## **5.2 Review of literature on causes capital flows and financial crises**

The South African literature on capital flows and potential risks of financial crisis is very thin so most of this literature review refers to literature dealing with global trends in capital flows and financial crises. The South African government seems to continue to adhere to the neoliberal approach common before the global financial crisis that disdained the use of capital controls, even though, the International Monetary Fund's (IMF) views on capital controls have become less hostile (see Ostry, 2010). The government and SARB had accepted the mainstream argument that financial liberalization is good for the economy during the 1980s and the Ministry of Finance and National Treasury have maintained that view during the post-apartheid period. As a result, the government pushed ahead with plans to further liberalize controls over the movement of capital by South African residents, despite their tacit acknowledgement that there has been large capital flight in the form of two foreign exchange amnesties.

According to Bruce-Brand (2002) the post-apartheid government from 1994 planned the reintegration of SA into global economy. A relatively cautious approach to the liberalization of international financial flows was planned but clear signals were sent to global financial markets that government's intention was to liberalize. Bruce-Brand says that the following sequence of liberalization was planned from 1994:

1. Abolition of exchange controls on all current account transactions;
2. Abolition of exchange controls on non-residents;
3. Gradual leniency in approval of applications for outward FDI;
4. Allowing domestic institutional investors to acquire more foreign assets to allow them to diversify their investment portfolios;
5. Progressive relaxation of all other controls on resident individuals;

## 6. Eventual release of emigrants' blocked funds in South African bank accounts.

The government steadily relaxed controls and enforcement of controls, especially after the adoption of the South African Government's Growth, Employment and Redistribution program (GEAR) was implemented in 1996. However, at times, especially after the currency crisis in 2001, the SARB tightened up on controls and chose to strengthen its increasingly lax enforcement of existing controls.

The currency crisis of 2001 that negatively affected growth and the recovery of the rand from 2002, which negatively impacted on exports and probably growth, and the debt driven consumption and increasing speculation from 2003 until the recession and job losses associated with the most recent global financial crisis, illustrated the type of uncertainty and volatility associated with financial openness in South Africa.<sup>89</sup> A few publications provide interesting insights that support arguments that the South African economy has become more volatile since the process of capital control liberalization took off from the mid-1990s. These studies indicate the preferences of foreign investors and the volatility associated with openness. Wesso (2001) shows that the main determinant of direct investment into South Africa after 1994 was the swap agreement where South African firms were allowed to invest offshore if they could secure foreign investment into South Africa. This finding indicates that investors prefer to take short-term positions in South Africa. Wesso also finds that "Portfolio investors usually chase high-yield interest

---

<sup>89</sup> Frankel and Rose (1995) define a financial crisis as a situation where the nominal exchange rate of the domestic currency to the US dollar falls by 25%. By this definition South Africa had a financial crisis at the end of 2001. I break with this convention (maybe unwisely) to differentiate what happened in South Africa from the financial crises analyzed in Palma (2000). As a result, I call the large decline in the value of the rand in 2001 a currency crisis.

bearing securities” (p.75). He says that foreign investors tend to sell off South African equities when there is a significant decline in domestic interest rates relative to foreign country interest rates. Vassi (2003) in a World Bank Working paper discusses how asset swaps formed part of a phased liberalization of cross border financial flows and were used to allow institutional investors to increase foreign assets in their portfolios before exchange controls were removed. Vassi argues that the use of assets swaps involved too much red tape for institutional investors and makes a case for more rapid exchange control liberalization.

Farrel (2001) finds that “... the conditional volatility of South African exchange rates was lower during the financial rand period than in the contiguous periods when the exchange rate was unified, and that volatility in the financial rand did not impact on the commercial rand exchange rate”. Aaron and Muellbauer (2002) say that nominal exchange rate shocks have less impact than monetary shocks on the economy in the short-run. However, they highlight their important finding that exchange rate volatility appears to be increasing as the economy opens.

These mainstream economics studies cited above offer support for the contention that South Africa is more vulnerable to surges in inflows and outflows of capital or “hot money” and the damage these flows may inflict. However, I have not found South African mainstream economics literature calling for capital controls. Farrel and Todani (2004) provide a history of regulation of South African cross border financial flows. They recognize the instability caused by uncontrolled flows but argue that the liberalization of exchange controls in South Africa was “... the correct option to choose in 1994, or at least not the incorrect option....” What Farrel and Todani were in fact saying is that the

Government and SARB were correct (or not incorrect) to choose exchange control liberalisation in 1994 because that was the policy then espoused by the IMF and orthodox economists.

Pollin et al (2005) in their analysis to show what would be required to implement an employment-led growth program in South Africa suggest the use of capital controls to limit the volatility of the rand and to support an expansionary fiscal approach. On the other hand, the report of what was referred to as the “Harvard group” who were contracted by the National Treasury of the Government of South Africa to advise them on macroeconomic policy suggested removal of the remaining controls on capital outflows (Hausmann, 2008). The recommendations of the Harvard group were to be more interventionist in exchange rate management to stabilize the rate but with a restrictive fiscal approach. They recommended a framework where macroeconomic policy is led by a more conservative fiscal policy that would have to be in surplus to decrease domestic demand. They said that this approach would allow the SARB to achieve inflation targets at a lower interest rate that would lead to a more competitive exchange rate. They seemed to ignore the impact of global liquidity and capital movements on the exchange rate and speculation in currency markets where the rand has been one of the most highly traded global currencies.<sup>90</sup>

SARB and South African Government economists (with support from the South African financial institutions) seem to continue to agree with the pre-Asian financial

---

<sup>90</sup> The BIS 2013 Triennial Central Bank Survey ranked South Africa 18<sup>th</sup> in terms of global foreign exchange turnover with 1.1% of the shares of global foreign exchange market average daily turnover in April 2013. was ranked 10<sup>th</sup> in 1998, higher than China, South Korea, Russia, Turkey, Brazil, Norway and New Zealand.

crisis views of orthodox advocates of financial liberalization who made the claims that liberalization of international capital flows (see for e.g., Dornbusch, 1998; Kim, 2000):

- Provides access to capital and resources (such as technology) to developing countries that they would not have domestically;
- Leads to efficiency and policy discipline in developing countries because the need to attract foreign capital flows causes maintenance of low inflation and fighting corruption
- Allows capital flows to be allocated by markets rather than government which means capital flows to projects with highest returns, i.e. Most efficient allocation of capital

However, many mainstream economists like Bhagwati (1998), Stiglitz (2002), Krugman (1998) and Rodrik<sup>91</sup>, (1998) actively argued in favor of capital controls after the Asian financial crisis and well before the 2007-08 global financial crisis.<sup>92</sup> Heterodox economists took the 2003 paper by Ken Rogoff (Economic Counsellor and Director of Research at IMF) and others as a major concession by the IMF in the debate over financial integration (see Prasad, Rogoff, Wei and Kose, 2003). This paper found that “there is no proof in the data that financial globalization has benefited growth” in developing countries. The paper also conceded that there are heightened risks of macroeconomic volatility associated with integration because “... cross country financial

---

<sup>91</sup> Rodrick was a part of the Harvard group but it seems that Hausmann wrote the macroeconomic recommendations referred to above

<sup>92</sup> For a mainstream view of reforming the global financial architecture after the Asian financial crisis see Eichengreen (1999 and 2002).

linkages amplify the effects of various shocks and transmit them more quickly across national borders” (p. 5). The IMF working paper by Ostry et al (2010), which says that capital controls could be justified in certain cases is seen as a more recent concession by orthodox economists in favor of controlling global financial flows

Grabel (2017) provides a more comprehensive discussion of IMF doctrine on this issue. She says that the neoliberal approach that shunned capital controls was challenged and undermined within the mainstream with the Asian financial crisis and enforced during global financial crisis. She provides a very nuanced reading of the situation that has unfolded since the global financial crisis. She shows that many developing countries and countries on the periphery of Europe have experimented with varied approaches to managing the effects of capital controls. She also describes a wide range of cross-country and regional initiatives to deal with instabilities in the global financial system that arose with widespread neoliberal deregulation of finance and financialization. She draws on the approach of Albert Hirschman and describes these initiatives as altering the global financial architecture as one of “productive incoherence”. Within this approach, the dominant institutions such as the IMF and World Bank have not been replaced but their dominance has withered and several other institutional alternatives have emerged. This alternative global financial architecture with its incoherence, imperfections and redundancies, provides opportunities for countries to experiment with solutions that may better suit them (ibid).

### **5.3 South Africa receives a surge in net capital inflows**

Capital flows started improving to South Africa from 1992 during the negotiations period and really took off after the 1994 democratic elections (see Figure 5.1). After 1997 capital inflows seem to have been affected by the financial crises in East Asia and elsewhere. Net capital flows as a percentage of GDP decreased from 1997 to 1998 and then increased again in 1999. In 2000 there was a severe drop in the level of net capital flows and it dropped again in 2001. After the 2001 currency crisis the net flows returned to the relatively low levels experienced before the 1994 democratic elections. In 2004 there was a large increase in net capital flows of 4.4% of GDP from -1.2% of GDP in 2003 to 3.2% of GDP in 2004. Net capital flows as a percentage of GDP increased to 4.9% in 2005 and continued to grow to a peak of 7.6% of GDP in 2007. As a result of the global financial crisis net capital flows declined to 4.2% of GDP in 2008 and down to 3.2% of GDP by 2010. It then grew to 6.9% of GDP in 2014 and declined all the way down to 2.7% in 2017

#### **5.3.1 Three Routes to Financial Crises**

Palma (2002) describes three routes to financial crisis using Mexico, Korea and Brazil (routes 1, 2 and 3 respectively) to illustrate the different routes to financial crises. The different routes are related to how countries absorbed the sudden large capital inflows experienced after liberalization. Palma's analysis provides a framework for thinking about how large capital inflows may have affected South Africa.

In route 1 countries, the inflows were passed on as massive increases in the amount of credit available to the private sector. As a result, foreign debt increased tremendously and the term structure of the debt was heavily weighted towards short-term

debt. The inflows led to reduced interest rates and revaluation of the currency. The combination of increased credit availability and interest rate reductions led to a consumption boom, a stock market bubble and real estate bubble, and a decline in savings. The consumption boom led to a massive increase in imported consumer goods that resulted in a huge deterioration of the current account. Foreign lenders soon realized that the situation in Mexico was unsustainable and as soon as some asset holder started pulling their funds out of Mexico (or selling their Mexican assets) the herd followed and the result was a major financial crisis.

In Korea, the massive surge in short-term inflows was also passed on as a surge of low interest credit to the private sector. Unlike Mexico, the credit did not go into consumption but was used to sustain high levels of investment. Korean chaebol had an ambitious investment program related to increasing their share of international sales in many key but highly competitive industries like electronics and automobiles. One problem with this strategy was that levels of profitability were in decline because of high levels of competition in these industries. In order to remain competitive in these industries it was necessary to continually invest huge amounts into maintaining technological superiority. As a result, large Korean corporations, which absorbed most of the surge in inflows, were hugely over-borrowed. At the same time the Central Bank of Korea maintained low levels of foreign reserves. The result was that foreign lenders soon lost confidence in Korea when it suffered some low growth despite its history of high levels of growth and productivity. The withdrawal of finance led to a major financial crisis.



Malaysia and Thailand had elements of both route 1 and route 2 when they had their crises. Their massive inflows of short-term capital were also directed to the private sector. However, unlike route 1 they did not revalue their currencies, did not have consumption booms and lower savings. The experience of stock market and real estate bubbles financed with short-term foreign debt was similar to route 1 countries. Like route 2 countries, the increased access to credit went into investments in the productive sector. Unfortunately, the economies of Malaysia and Thailand were attempting to break into value-added new markets in competition with countries that they had previously subcontracted for. At the same time, China emerged as an important competitor in many of the markets that Malaysia and Thailand depended on for their exports. The result was that they had low growth at a time when their foreign borrowings were very high. So despite a strong track record of high growth and productivity these countries were affected by financial crises when managers of short-term funds embarked on panic-ridden flight from their economies.

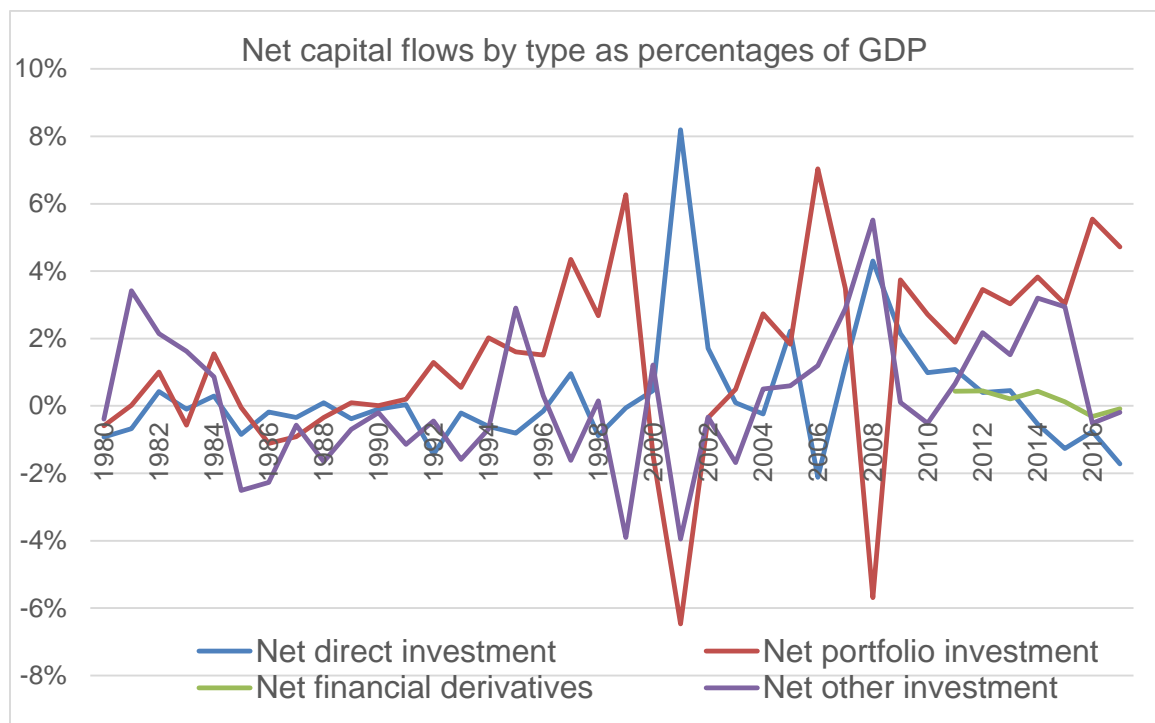
The massive short-term inflows in Brazil, route 3, did not lead to consumption or investment booms. Fear of spiraling inflation caused the Brazilian authorities to increase interest rates. Learning from the Mexican experience, the Brazilian authorities maintained high interest rates to avoid a consumption boom and stock market and real estate bubbles. However, this strategy led to big problems in their public finance sector and lots of fragility in the private banking system. At the same time, due to the very high interest rates, public debt was increasing faster than revenues and returns on foreign exchange reserves. The high interest rates negatively affected industry and the tax revenues of government declined even further. However, Brazil could not reduce interest rates

because of internal politics, lack of public sector reform and the need to maintain their exchange rate. A decline in the value of their currency may have deepened the financial problems of the banks that had big foreign debt. These obvious problems in Brazil led to a quick loss of confidence that led to withdrawal of finance causing a major financial crisis.

Palma concludes with the insight “So, the moral of the story of the ‘three routes’ is that no matter how LDCs facing sudden and massive surges in capital inflows have handled their absorption, they have ended up in major financial crises” (p.32).

### 5.3.2 The Nature of Capital Flows into South Africa

**Figure 5.3: Net capital flows by type (as % GDP)**



Source: calculated using SARB data

The change in the composition of net capital flows is of interest when considering South Africa. South Africa was affected by the reluctance of international banks to lend to developing countries after the international debt crisis of the 1980s. In figure 5.3, one observes that before the 1985 moratorium on short-term debt and the five-day suspension of foreign exchange, net other investment flows, which includes bank lending, was the largest part of net capital flows.<sup>93</sup> Net other investment flows and net capital flows did not recover in Latin American countries after the debt crisis. South Africa was similarly affected. Net other investment flows seem to have been replaced by a surge in net portfolio investment flows and to a lesser extent net direct investment flows (related to privatization) in Latin American countries during the 1990s as a result of growth in international liquidity. South Africa also experienced a surge in portfolio flows and some increases in direct flows (some of it also related to privatization).

From 1986 to 1993 net capital flows as a percentage of GDP were negative and only showed signs of recovery when South Africa had democratic elections in 1994. There was growth in net portfolio flows as a percentage of GDP from 1990. During the 1994 to 2000 period direct investment was a small proportion of total capital inflows in South Africa. In 2001 when there was a significant drop in net portfolio flows, net direct investment was a more significant portion of total capital inflows. In 200, net direct

---

<sup>93</sup> South Africa received increase net flows of other investment flows (mostly short-term bank loans) once the countries of Latin America had defaulted. The international banks seem to have turned to South Africa when lending opportunities elsewhere dried up. However, the surge in capital flows very quickly led to financial instability in South Africa and in 1985 the government announced a debt moratorium.

investment was large<sup>94</sup>, net portfolio flows turned negative and net other capital flows relatively small. The instability in net capital flows during the 1990s was related to the movements of short-term, portfolio flows. This movement may have been closely related to changes in sentiment towards developing countries in global financial markets, contagion resulting from financial crises in other parts of the world and economic slowdown in developed economies. As is illustrated in Kindleberger's (1978) history of financial crises, surges in short-term capital flows greatly increases a countries vulnerability to financial crises. This will be discussed in more detail below.

The process of neoliberal global integration since the breakdown of the Bretton-Woods arrangements in the 1970s escalated during the Reagan-Thatcher era in the 1980s. By the end of the 1980s, most countries, including developing countries, had moved towards full convertibility of their currencies and the push for liberalization of financial markets was well under way (Helleiner, 1994). The apartheid government was also influenced by the drive towards neoliberal integration and had attempted financial liberalization, starting with an attempt to end the dual currency exchange rate system in 1983. This experiment failed because, in addition to financial fragility caused by the surge in short-term bank lending, a number of foreign banks, spooked by heightened internal resistance to apartheid in 1985 and pressure by the international anti-apartheid movement, decided to withdraw or not renew lines of credit. The rand exchange rate dropped significantly forcing the government to suspend trading on the foreign exchange market and the Johannesburg Stock Exchange securities market. This suspension lasted

---

<sup>94</sup> A large part of the surge in direct investment as a percentage of GDP in 2001 was because a large South African corporation moved its primary listing outside of the country. The result was the corporations' investments in South Africa became classified as foreign direct investment.

five days: from August 28 to September 1, 1995. Ironically, one of the tasks of the new government after the first democratic elections in 1994, once political stability seemed to have been attained, was to renew this process of financial liberalization starting with the abolition of the dual exchange rate system.

The end of apartheid coincided with a period when there was a lot of liquidity in international markets. There was huge growth in the value of the assets of institutional investors. According to Palma, the average increase for the G7 group of countries between 1988 and 1996 was about 40% of GDP and the growth in the US was 60% of GDP while in the UK it was as high as 80% of GDP (Palma, 2003, p. 349). Palma adds that massive international liquidity was an important contributing factor to the massive increase in flows to some developing countries but not the only reason. He argues that some developing countries play the role of “market of last resort”, especially when an increase in international liquidity occurs at a time when there is slow growth in OECD countries. After the democratic elections South Africa became an important option for institutional investors looking to expand their portfolios to include Sub-Saharan Africa. It has deep financial market and is the strongest economy in the region, with the most developed industrial and mining sector.

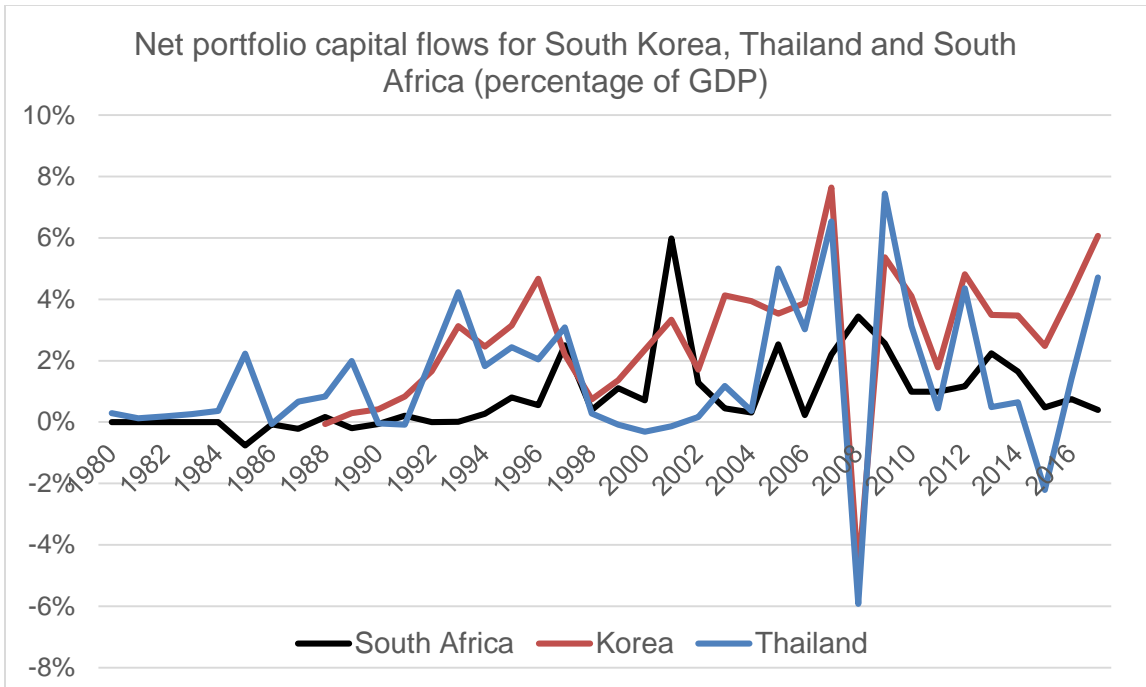
Another reason for movements of capital to certain developing countries was the belief by investors that economic reforms (such as those suggested by the Washington consensus) would lead to environments where they could earn good returns on their investments. The new South African government made a concerted effort to attract capital flows by assuring credit rating agencies, financiers and potential investors that it would maintain strong macroeconomic fundamentals and implementing other reforms

such as trade liberalization. The government's problematic assertion that GEAR was nonnegotiable was part of this effort to gain and maintain credibility.

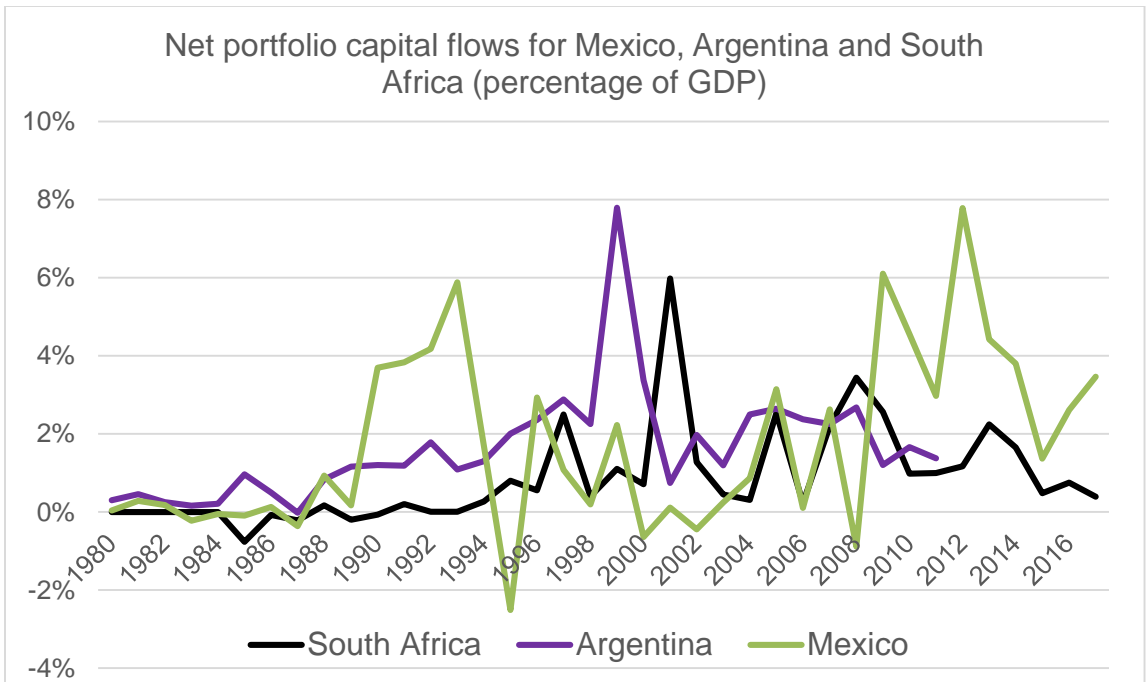
Some developing countries are relatively more attractive to foreign investors because of opportunities for profit, such as undervalued asset markets (especially stocks and real estate), high interest rate spreads and the expectation that there would be a real appreciation in exchange rates. Palma argues that some developing countries would artificially develop these attractions to gain inflows (ibid, p. 10). South Africa was relatively attractive to foreign investors due to the existence of relatively undervalued assets as a result of years of international isolation and high real interest rates. The interest rate spread was kept relatively high at 4.7% in 1994 and increased to 5.3% by 2000.

**Figure 5.4: Net portfolio flows for Mexico, Brazil, South Korea, Thailand and South Africa**

(a)



(b)



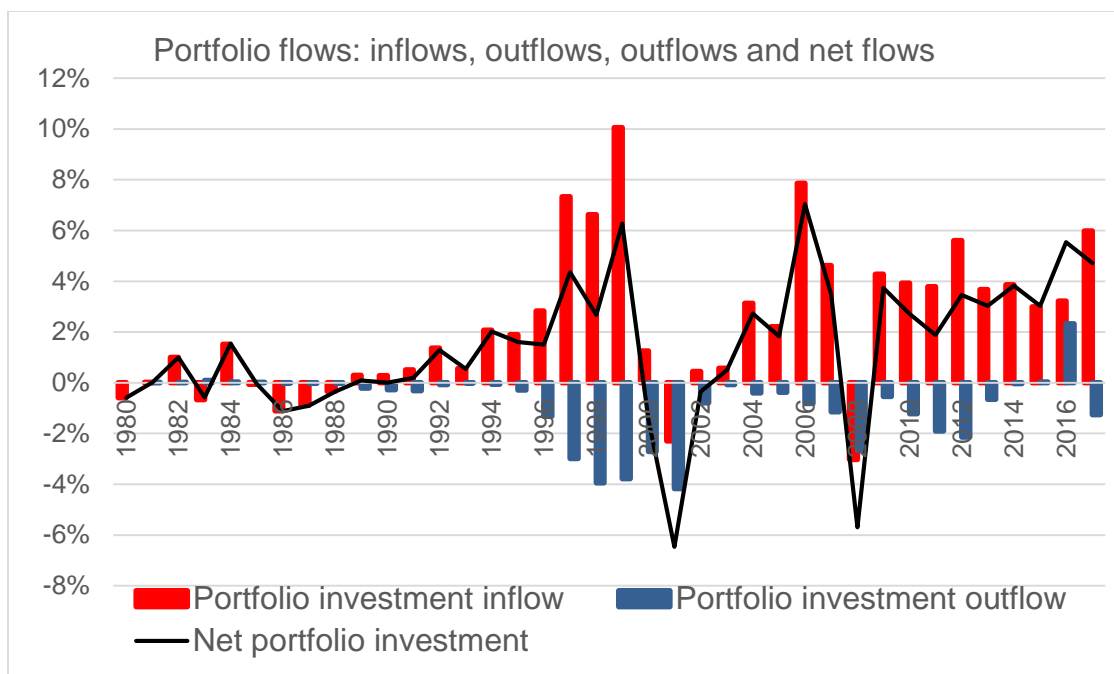
Source: IMF IFS

The huge inflows into developing countries were an important cause of financial crises in the neoliberal era. Reinhart and Rogoff (2009), in their examination of banking crises over the long period from 1800 to 2008, show that banking crises were strongly associated with periods of mobile capital and that crises were less likely to occur when there was less capital mobility. Schularick and Taylor (2012) also examine causes of financial crises over a long period (1870-2008) and show that past credit growth is a good predictor financial crises.

Since the end of apartheid, South Africa has joined the club of developing countries experiencing relatively large net capital inflows. A large proportion of the inflows were short-term, highly volatile inflows. Figure 5.4 (a) and (b) shows net portfolio flows as a percentage of GDP for a number of countries affected by financial crises during the 1990s and for South Africa. Mexico and Argentina had financial crises during 1994-5. Mexico received large net portfolio flows from 1991 and Argentina got large net portfolio flows from 1992. By 1993 these flows had grown massively to 14% of GDP in Argentina and 7% of GDP in Mexico. In 1994, the year the crisis started, these flows collapsed

**Figure 5.5: Portfolio inflows, outflows and net flows as percentages of GDP**





Source: Calculated using SARB data

Figure 5.3 shows the rapid rise in portfolio capital flows into South Africa after 1994 and Fig. 5.5 show both portfolio capital inflows and outflows. For example, in 1999 net capital flows were 42% of exports and 6% of GDP. Portfolio inflows reached a peak of 10% of GDP in 1999. The flows to South Africa were later and smaller in volume than those to Mexico, Brazil and the East Asian countries for a number of reasons. South Africa became available as suitable destination later than these countries and many institutional investors had committed funds to the other countries. The institutional investors were less interested in Sub-Saharan Africa and had dedicated fewer resources to research investments there. There was confidence with respect to the economies of Mexico, Brazil and East Asia and in some of these countries speculative bubbles emerged. These investment bubbles probably limited the amount of funds that could be diverted to investing in South Africa and limited interest in South Africa.

The South African economy was just emerging from a period of instability and the new government faced huge challenges in reducing poverty and improving the lives of a highly politicized citizenry. Therefore, despite the new South African government's overtures towards the Washington Consensus, foreign investors may have chosen relative restraint when making decisions to invest in South Africa. Despite this relative restraint the net capital flows were huge compared to previous inflows into South Africa. Further, the net portfolio flows were relatively volatile and were affected by changes in global liquidity and sentiment. The increases in portfolio flows during the 1990s and from 2003 to 2007 were related to growth in global liquidity and levels of debt leverage. The large drops and periods of negative portfolio flows were a result of contagion from and negative sentiment associated with crises elsewhere in the global economy. The decline in 1998 was due to the Asian financial crisis, the negative net flows in 2001 occurred at the time of the Dotcom crash and a period of negative sentiment towards South African financial assets in global financial markets, and the 2008 negative net flows were associated with the global financial crisis. Historically most portfolio investment inflows (liabilities) into South Africa went to the public sector. During the post-apartheid bulk of portfolio inflows went to the private sector.

It is interesting to note that there was an increase in net other flows from 2004 to 2008. These flows were negative for most of the period 1990 to 2003. In 2003 net other flows were close to -2% of GDP in 2004 it grew to 0.5% of GDP. By 2008 net other flows was 5.7% of GDP. The increase from 2004 was due to increased carry trade activity in South Africa where speculators were taking advantage of the high level of interest rates in the South African economy.

The large level of net other flows in 2008 helped to offset the sharp drop in net portfolio flows to South Africa and may have helped shield the South African financial institutions from the effects of the global financial meltdown. However, capital account openness, in cases such as this, may have an undue upward bias on interest rate decisions to attract short-term funds but harm domestic businesses and households.

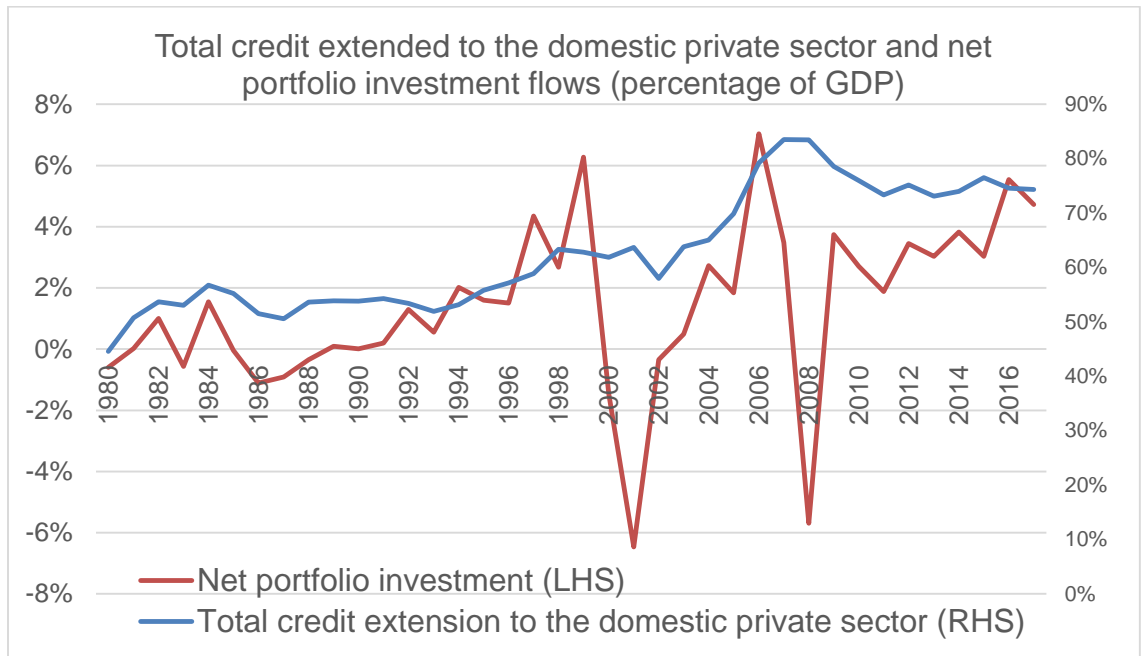
After the global financial crisis, the SARB maintained positive real interest rates at a time when many countries kept their real interest rates negative. Net portfolio flows recovered from the large decline in 2008 and net other flows turned negative in 2009 and recovered by 2011. Both net portfolio and other flows were relatively strong until 2015 when both were around 3% of GDP. By 2016 other flows declined to -0.5% of GDP while portfolio flows surged to 5.5% of GDP.

Net direct investment flows were 5.5% of GDP in 2008 and declined steadily until it turned negative in 2014 and by 2017 had declined to 1.7% of GDP.

#### **5.4 How the surge of capital inflows was absorbed by the South African economy**

Palma's (2003) description of the different routes to financial crises highlights the importance of the manner in which surges in capital flows are absorbed by a country. It does make a difference whether surges in capital flows are used for productive purposes or feeds consumption and speculative acquisition. When capital inflows are used wastefully it weakens the economy because a country's liabilities are increased but there is no growth in productive assets. This type of behavior is unsustainable and constrains a country's ability to raise foreign capital for productive purposes in the future.

**Figure 5.6: Domestic credit to private sector (% of GDP)**



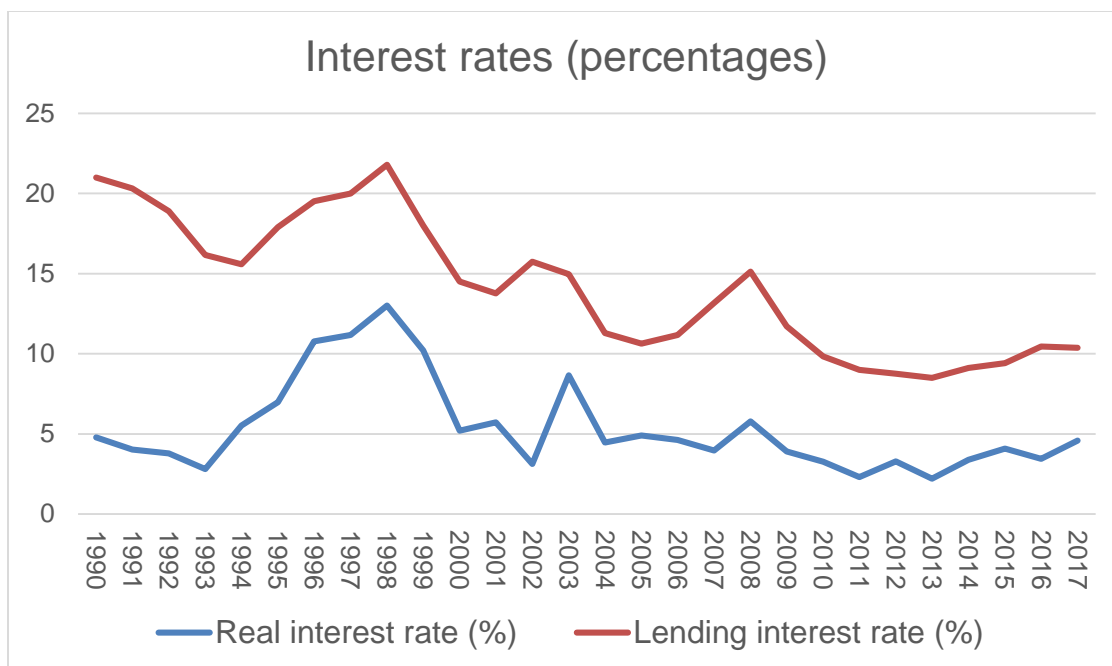
Source: calculated using World Bank's World Development Indicator (WDI) data

There was a rapid increase in domestic credit to the private sector associated with the rapid increase in portfolio capital inflows during the 1990s. Figure 5.6 shows domestic credit to the private sector as a percentage of GDP from 1980 to 2003. Portfolio capital flows increased during the 1990s with the end of apartheid isolation and seemed associated with growth in the extension of credit to the private sector. Domestic credit to the private sector as a percentage of GDP grew from 51.5% of GDP to 63.3% of GDP from 1993 to 1998. Then in 1999 South Africa received a huge increase in portfolio inflows. The growth in portfolio capital inflows as a percentage of GDP grew from 7% of GDP to 10% of GDP. Domestic credit to the private sector as a percentage of GDP increased from 58.9% in 1998 to 63.3% in 1999. It then stayed at that level until through to 2001, even though there was large decline in portfolio capital inflows at this time. It

then dropped to 58% in 2002. Palma (2003) shows that before their crises, Mexico had domestic credit to private sector of about 50%; Chile's was just less than 60%; and Korea's less than 80%. Brazil chose not to expand credit to the private sector by attempting massive sterilization. South Africa's level of domestic credit to the private sector was on par with countries that had financial crises. An important factor that reduced South Africa's financial fragility was that it had a relatively low level of foreign denominated debt. Domestic credit to the private sector as a percentage of GDP grew fast from 2003 when it recovered from 64% to 84% by 2007. There was also a fast increase in net portfolio flows as a percentage of GDP from 0.5% in 2003 to 7% in 2007. Domestic credit to the private sector as a percentage of GDP declined to 73% by 2011 and stayed at that level through to 2017.

South Africa seemed to be a relatively safe emerging market after the financial crises in Asia in 1997 and managed to maintain relatively high levels of net capital flows until 1999. Figure 5.7 shows that the surge in net capital flows in 1997 was followed by a reduction in real lending rates from 1998 (except for 2003) through to the global financial crisis until 2013. There may have been a process where increased net capital flows supported more liquidity and contributed to reducing the real cost of capital. As shown in figure 5.5, there was an associated rapid increase in domestic credit available to the private sector. The question that remains to be answered is how the private sector in South Africa utilized the increased capital available to them.

**Figure 5.7: Real and lending interest rates**



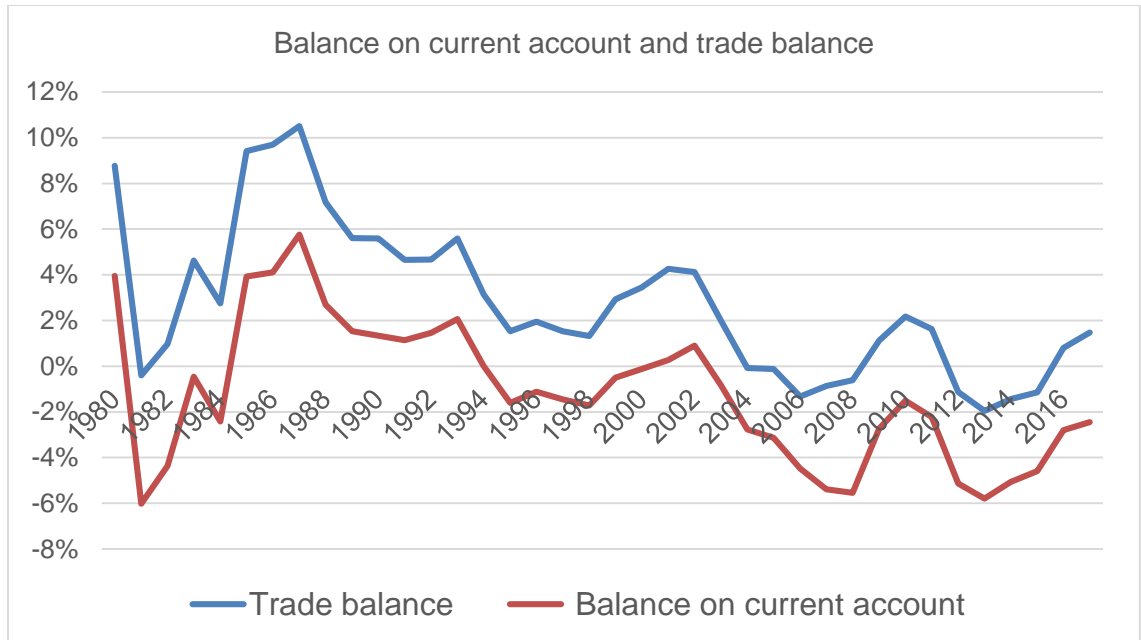
Source: WDI

Figure 4.4 (in Chapter4) shows that private fixed investment as a percentage of GDP was below 12% from 1995 to 2004. From 2005 private fixed investment increased by over 12% and by 2008 reached 16% of GDP and then declined back to 12% of GDP in 2010 and was 12% of GDP in 2017. Therefore, overall gross private fixed investment did not increase significantly at a time when there was a large increase in domestic credit to the private sector. The increase from 2005 to 2008 will be discussed below.

On the whole, private GFCF was poor during the 1990s and the surge in net capital inflows that translated into more credit to the private sector did not lead to the private gross capital formation levels of the 1980s. Therefore, the surge in capital flows in South Africa was unlike those in East Asian countries but more like that of countries in Latin America. In countries like South Korea, Malaysia and Thailand the surge in inflows was associated with demand for capital to maintain high levels of investment during a

period when their profits were falling rapidly.<sup>95</sup> In countries like Mexico, Argentina and Chile the surge in capital flows was as a result of external supply rather than domestic demand (Palma, 2003).

**Figure 5.8: Balance on current account and trade balance (percentage of GDP)**

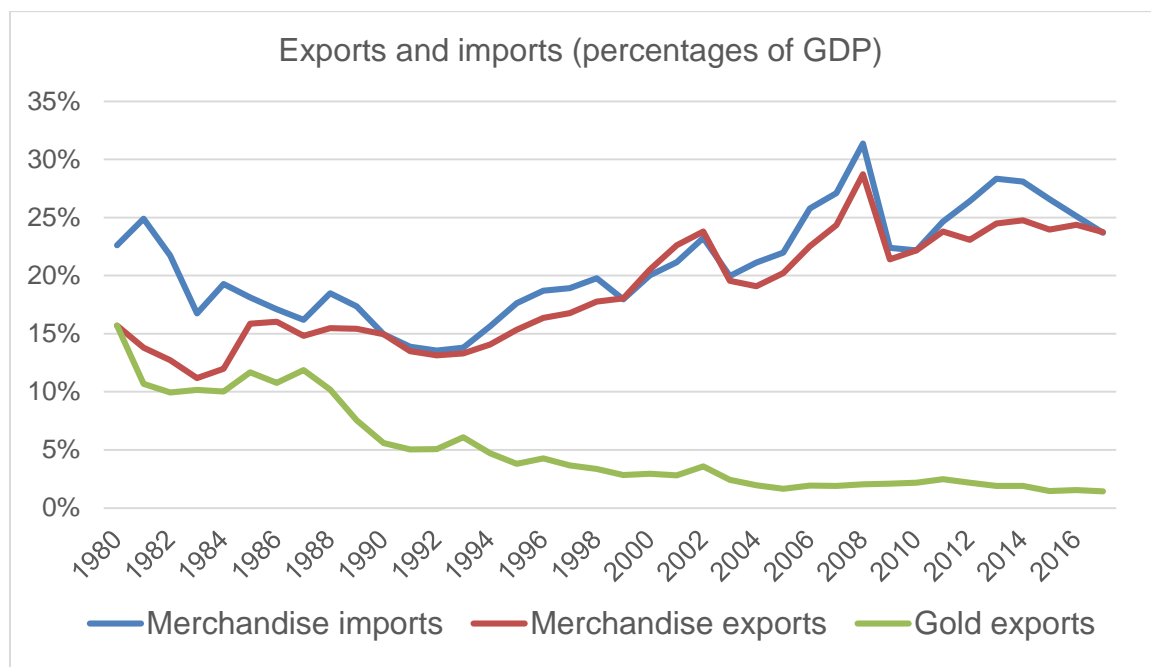


Source: SARB

Figure 5.8 shows the balance on the current account and trade balance as a percentages of GDP for the period 1980 to 2000. From 1981 to 1984 there was a current account deficit as a result of the growth in the gold price and the surge in short-term bank lending. From 1985 until 1993 there was a surplus on the current account. After the 1985 debt crisis, capital flows to South Africa dried up and it was necessary for the country to run a trade surplus because it did not have foreign exchange to finance a trade deficit.

<sup>95</sup> This is not to say that the surge in net capital flows did not lead to exuberant behavior in the East Asian countries. Malaysia and Thailand had such large surges that they had real estate and stock market bubbles related to the increase in availability of capital.

**Figure 5.9: Exports and imports (percentage of GDP)**



Source: SARB

As portfolio flows into the country resumed from the early 1990s it became possible to run a trade deficit again. From 1995 there was a trade deficit until 1999. In 2000 when portfolio capital flows collapsed there was a trade surplus once again. From 2003, at the same time when portfolio flows returned, the trade deficit returned as well. By 2006 the trade deficit was 1% of GDP and stayed at that level until 2008. Figure 5.9 shows the trend for merchandise exports, gold exports and imports as percentages of GDP. There was a decline in gold exports but this decline was offset by the increase in coal and platinum exports that are captured in merchandise exports. Merchandise exports grew from 13% of GDP in 1993 to 24% of GDP in 2002 then declined to 19% of GDP by 2004 and then grew rapidly again to 29% of GDP. The increase in commodity prices during the period before the global financial crisis helped South Africa because the growth in

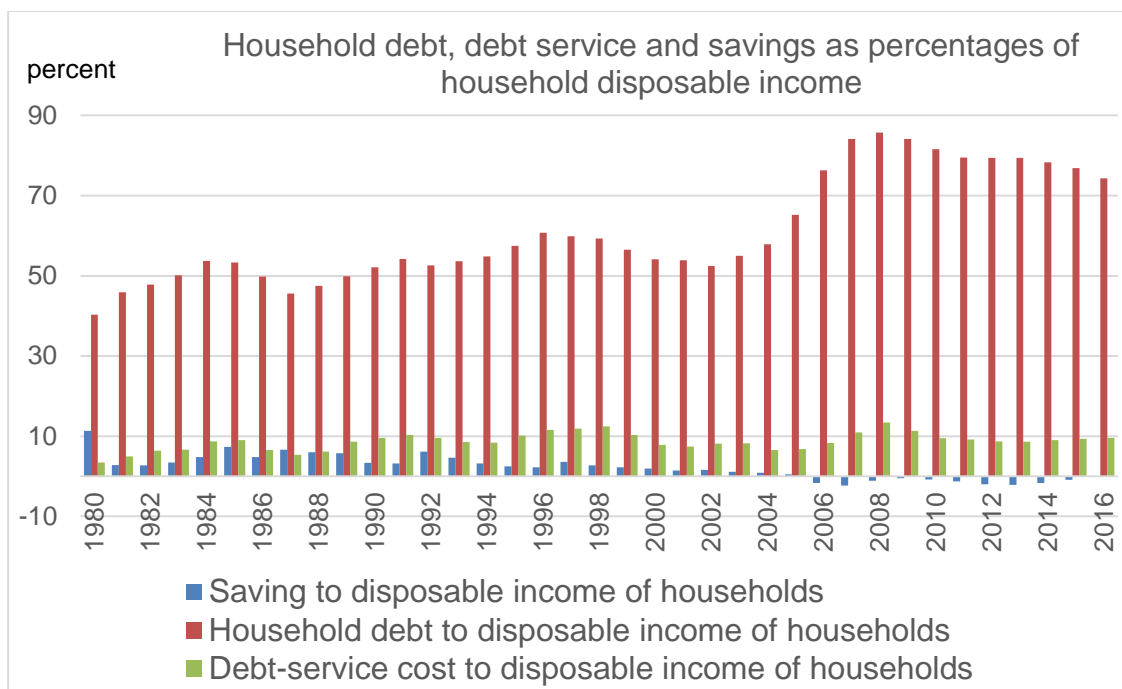


merchandise imports was even larger than that of merchandise exports. Imports grew from 14% of GDP in 1993 to 31% of GDP in 2008. The export earnings, capital inflows supported rapid growth in imports at a time when South Africa's was going through a period of deindustrialization.

This rapid growth in the trade deficit and imports was associated with growth in consumption and imports of consumer goods. Based on the import data it is possible to say that the increase in portfolio flows is associated with increased imports. Since investment levels did not increase at the same pace as import levels one deduces that there was increased imports of consumer goods. The rapid growth in imports from 2003 to 2008 will be discussed further below.

Figure 5.10 shows that there was a large increase in final household consumption expenditure as a percentage of GDP. Household consumption, which also grew in real term (2010 rands) grew from 59% of GDP in 1993 to 66% to GDP in 2008. The effect of the debt driven consumption and tighter debt took its toll on growth in household consumption as a percentage of GDP after 2008. Consumption reduced from 2007 to 2008 and then recovered and by 2017 household consumption was 67% of GDP.

**Figure 5.10: Household debt, debt service and savings (as percentage of disposable income)**



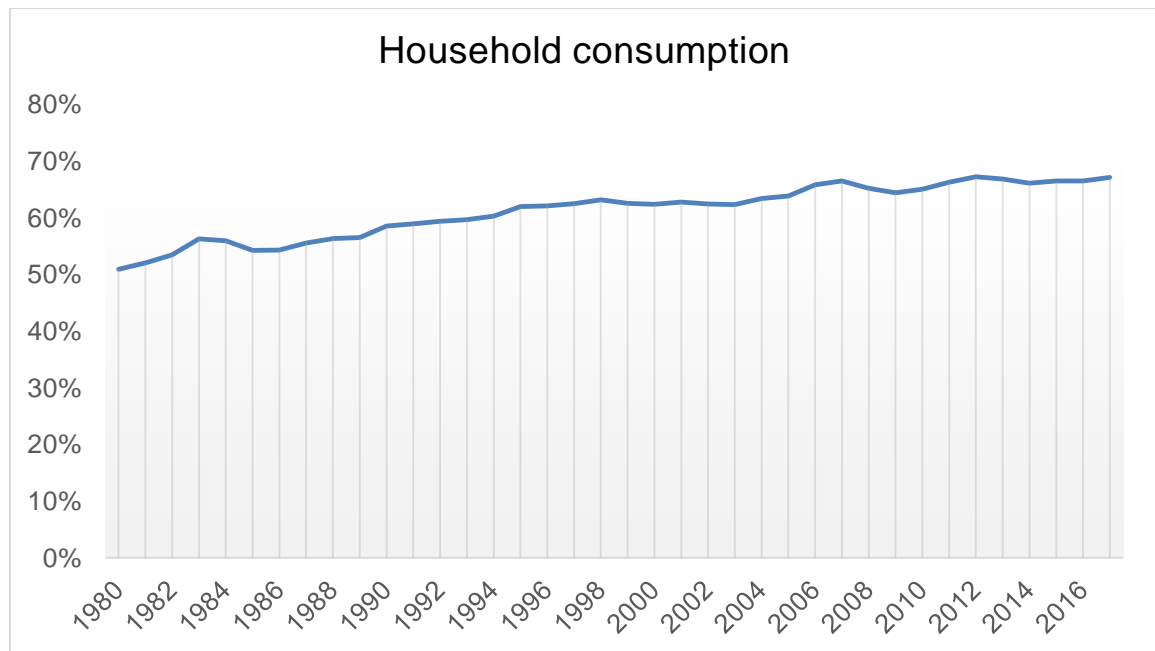
Source: SARB

The real growth (in 2010 rands) in final household consumption expenditure during the 13 years 1993-2005 was 59% an average of 4.5% per annum. At the same time, the growth in real GDP per capita for the period was 22%, an average of 1.7% per annum. Similarly, real average annual growth for household consumption during the 25 years from 1993 to 2017 was 4.9% but real average annual growth in GDP per capital was only 1.5% for the period.

Figure 5.10 shows the trends related to household debt and savings. The savings to disposable income of households decreased from 4.5% in 1993 to 0.2% in 2005 and turned negative in 2006 until 2016 when it was zero. Household debt as a percentage of disposable income was 58% in 1993 and it increased to 61% in 1997 as portfolio inflows increased and dropped to 53% in 2000 when there was a collapse in portfolio flows. Household debt as a percentage of disposable income dropped to 50% by 2002, probably

in response to the increases in interest rates in that year. However, by 2003 when portfolio inflows returned it increased to 52%, then increased sharply to 56% in 2004 and even more to 62% in 2005 and peaked at 86% in 2008. Household debt to disposable income declined to 74% by 2016. The change in portfolio flows is associated with changes in household consumption and savings patterns. The mechanism for explaining how increasing portfolio flows lead to increases in household spending (see Fig. 5.11) and increasing debt is through the increase in credit to the private sector and downward pressure on real interest rates.

**Figure 5.11: Household consumption (% GDP)**

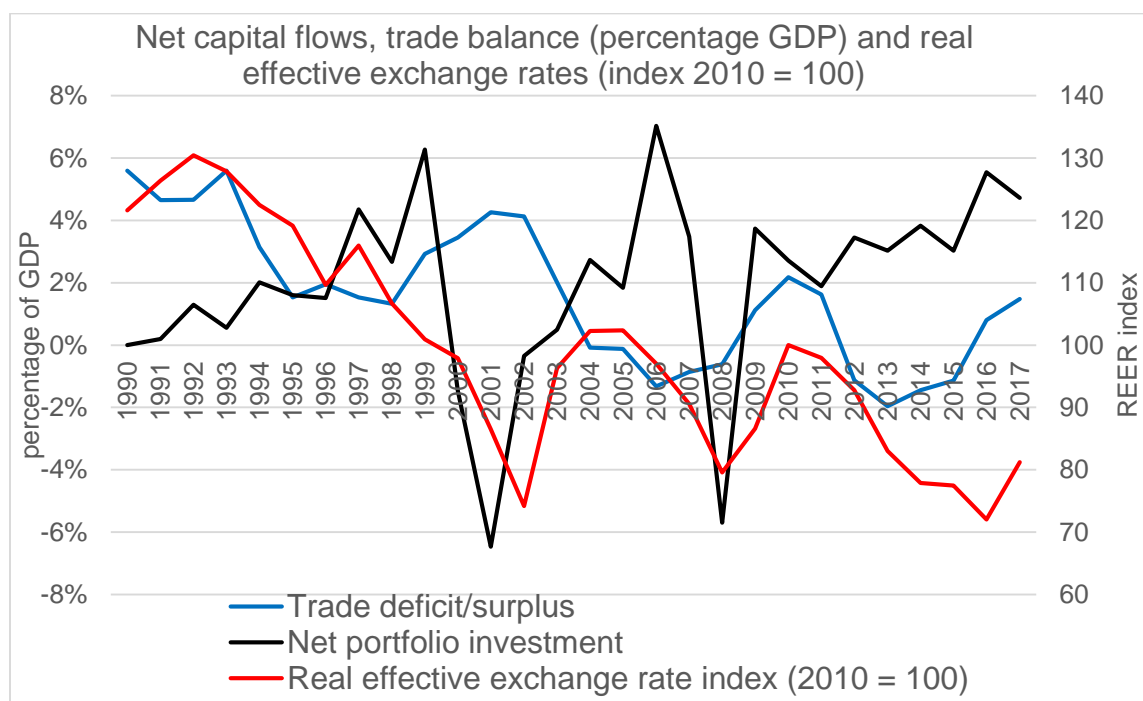


Source: SARB

The increase in portfolio flows of the 1990s and the associated increased credit to the private sector and decreases in real interest rates led to a housing price bubble in South Africa during the period 2002 to 2005. The currency crisis of 2001 led to a 35%

depreciation in the rand to dollar exchange. The rand price of imports increased and inflation increased, as a result the real interest rate continued to decline from 5.2% in 2000 to 3.1% in 2002. After the 4% increase in the repo rate in 2002, the real interest increased to 8.7% in 2003. House prices increased by an average of nearly 40% from 2002 to 2005 as homeowners saw sharp declines in nominal interest rates. As in the US, the collapse of the dotcom bubble drove capital into the housing market in South Africa, which contributed to the rapid escalation in house prices.

**Figure 5.12: Net capital flows, trade balance and real effective exchange rates**



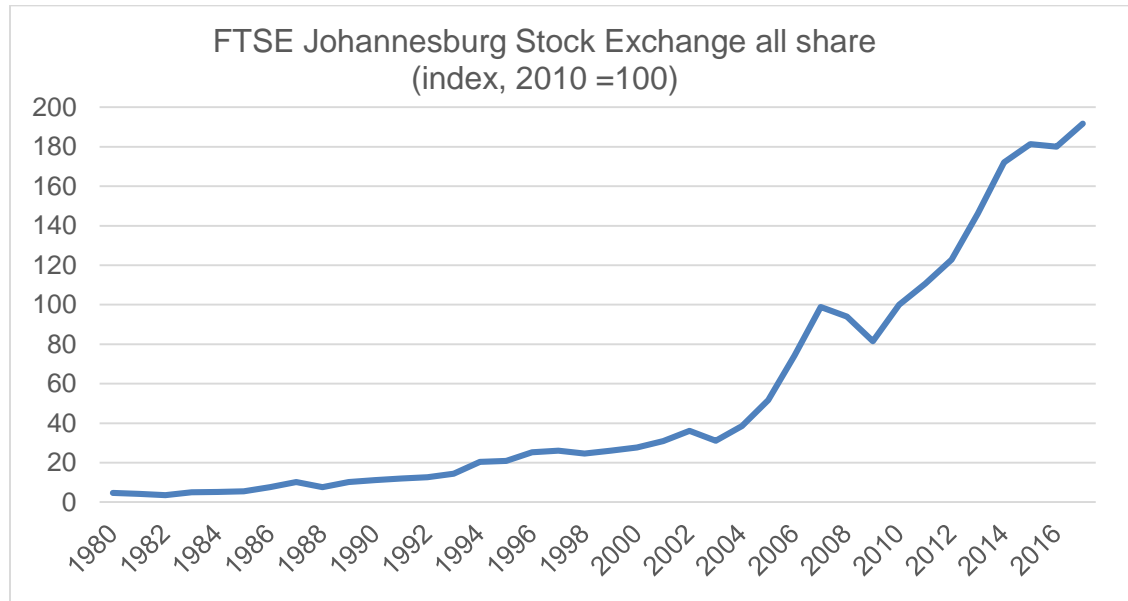
Source: calculated using SARB data

During the early 1990s net portfolio flows increased with the end of apartheid isolation. During this period the real effective exchange rate (REER) seems to track movement in the trade balance (as a percentage of GDP) but by the time of the Asian financial crisis

net portfolio flows (as a percentage of GDP) seems to exert greater influence over the REER (see Fig. 5.12). The sharp decline in net portfolio flows from 2000 to 2001 is associated with a 24 index point drop in the REER between 2000 and 2002, even though, the trade balance improved over the 2000 to 2002 period. The trade balance declined from 4% of GDP in 2002 to 0% of GDP in 2004 and turned negative by 2006. At the same time, net portfolio flows recovered from -6% of GDP in 2001 to grow to 7% of GDP by 2006 and the REER goes from an index of 74 in 2002 to 102 by 2005. The REER weakened in 2007 and 2008 as the effects of the mortgage crisis in the US spread and net portfolio flows tanked from 7% of GDP in 2006 to -6% of GDP in 2008, while the trade balance was forced positive from 2008 as a result of this decline.

Net portfolio flows as a percentage of GDP recovered to 3.7% of GDP by 2009 but dropped to 2% of GDP by 2011 and the trade balance went into deficit by 2012. The REER dropped from 2011 but then kept dropping right through to 2016 (from 100 to 72), even though, there was an overall improvement in net portfolio flows until 2016. The liberalization of capital markets is associated with volatility of the REER where capital flows may be influencing the level of the REER and from the time of the Asia financial crisis net portfolio flows seem to be more closely associated with REER movements. Positive net flows may have the effect of strengthening the rand and creating a bias in favor of imports rather than exports. At a balance of payment level, the inflows of finance have to be accompanied by a lowering of the current account deficit so short-term inflows may be a reason for the rapid growth before the global financial crisis when South African exports were doing well due to the commodity prices.

**Figure 5.13: All share price index**



Source: OECD

Figure 5.13 shows the index of all shares share prices (it tracks the top 40 companies share prices) on the Johannesburg Stock Exchange. There was slow growth during the early-1980s with the index growing from 4.7 in 1980 to 10.3 in 1989. Growth during the 1990s was faster from 1.2 in 1990 to 26.1 in 1999 and continuing at that pace until 2002 when it was 36.1. From 2004 to 2007 the all shares index grew from 62 to 188 showing acceleration in speculative activities in South Africa. There was exuberant growth based on easy access to credit in the private sector. The increase in portfolio flows and increase in access to credit during the period before the global financial crisis was associated with a rapid growth in the ALSI from 31.1 to 98.9 in 2006. The slowdown in credit and large decline in portfolio flows after the crisis caused a very short correction in the ALSI from 2007 when the index was 98.8 to 81.5 in 2009. The ALSI grew phenomenally thereafter and was 191.7 in 2017. This 4% growth in the ALSI in 8 years

was associated with the continued positive net short-term capital flows into South Africa and the declines in fixed investment and productive capacity (fixed capital stock in manufacturing).

## **5.5 South Africa's economic growth path and capital flows**

The implications of relatively uncontrolled movements of capital into and out of the South African economy have had a huge impact on the nature of economic growth. These financial flows have played a significant role in reshaping the South African economic growth path since the onset of the transition to democracy during the early 1990s. South Africa had achieved its democracy and change in Government at a time of important changes in the global economy where the liberalization of trade and financial markets were leading to rapid and increasing integration of these markets globally.

The apartheid Government had begun liberalizing finance and trade during the 1980s but their efforts were hampered by internal struggles, international isolation, including economic sanctions and divestment, and the repercussions of the international debt crisis of the 1980s and a South African debt crisis in 1985. The new democratic Government chose to continue the economic liberalization and integration with global trade and financial markets of their apartheid predecessors. Unlike their apartheid predecessors who were pursuing exploitative and oppressive racist policies, the post-apartheid Government said that they were introducing these policies to address the inequality, poverty and unemployment legacy of apartheid. In doing so this new Government ignored many of the lessons of countries, such as Japan, South Korea and other Asian tigers, that achieved rapid state-led economic development that reduced

unemployment, poverty and inequality through industrial development.<sup>96</sup> Instead, the new South African Government followed Washington Consensus-type policies, which they believed would send a signal to global financial that they were following credible economic policies in the hope of attracting foreign investment.

The liberalized financial markets and the financialization of South African corporations have affected and played a significant role in reshaping the economic growth path since the 1990s.<sup>97</sup> The changes due to policy decisions to allow relatively free movements of capital into and out of South Africa have transformed the economy, which Fine and Rustomjee (ibid.) described as centered on an MEC during the 1990s.

Most of the surges in foreign capital inflows were short-term and, therefore, most of the increased liquidity in the South African economy was directed to short-term use, such as consumption and speculation. The role and structure of the South African financial institutions, which were modeled on the British market-based system rather than the German-style bank-based system, meant that the increased capital inflows were directed towards short-term unproductive activities. The route 1 type of absorption of capital (to use Palma's classification) into the South African economy since the mid-1990s meant that the large increased flows of hot money into the economy favored the growth of services sectors linked to increased debt driven consumption and financial and real estate speculation and led to decline in manufacturing sectors and productive services.<sup>98</sup>

---

<sup>96</sup> For more on lessons of industrial development in East Asia see Johnson (1982), Amsden (1989), Wade (1990), and Chang (2002).

<sup>97</sup> I discuss the impact of financialization on South African corporations in Mohamed (2010).

<sup>98</sup> Balkan E, Biçer, F.G. and A.E. Yeldan (2002) in a study of capital flows in Turkey after liberalization of flows in 1989 also find increased short-term inflows to be associated with industrial production and where fixed investment increased it was in non-traded sectors that benefited from exchange rate appreciation.



## **5.6 Conclusion**

The manner in which the significant increases in foreign capital flows were absorbed by the South African economy since 1994 should have raised alarm bells for South African policymakers. There were significant costs to the economy in terms of economic growth, investment and employment when increases in liquidity were channeled towards increasing consumption, imports, share prices and capital flight.

The lessons of surges in capital flows, capital absorption and financial crises in other developing countries were not heeded or possibly were not understood by Government and the Reserve Bank. The short-term cost of the 2001 currency crisis was an important signal that South Africa should have considered more effective capital management techniques and have looked beyond orthodox solutions to financial market instability. Unfortunately, even after the global financial crisis the South African Government and Reserve Bank continued to favor open capital markets. They seem relatively unmoved by the fallout from the global financial crisis on the South African economy: Statistics South Africa's data shows that the economy lost over one million jobs from 2008 to 2010, there was a recession during 2009 and reports from the national credit regulator showed that home foreclosures and car repossessions increased.

The longer-term impact of the increased liberalization of financial markets and uncontrolled flows of volatile foreign capital was not only increasing macroeconomic and financial instability and fragility that created instability and uncertainty for long-term investments and employment creation in productive sectors of manufacturing and services. The longer-term impact was also that the economic growth path shifted towards

allocating capital, infrastructure and skills towards speculation, consumption and unproductive services and led to deindustrialisation. The experience since 1994 has been that capital stock and employment growth have occurred in services sectors that benefited from debt driven consumption and speculation in real estate and financial markets but that capital stock and employment in manufacturing has declined.

The South African economy entered the democratic era with a legacy of inequality, high unemployment and an industrial structure that was relatively undiversified and focused on mining and minerals. The economic policy choices and behavior of industry has not helped to address that legacy but instead seemed to have exacerbated the economic problems of the country. The economic growth path influenced by uncontrolled foreign capital flows, misallocation of capital and financialization and internationalization of the large South African corporations may have steered the economy in the direction of more dependence on volatile, short-term capital inflows, more dependence on mining and minerals sectors, further deindustrialization and job losses in manufacturing and productive services, increasing precarious work and growing poverty and inequality. Not all these problems can be solved by regulating and managing the movement of capital into and out of South Africa but based on the evidence presented in this chapter we believe that these policy changes would be an important part of an economic policy package to support economic and industrial development in South Africa that addresses the legacy of apartheid and the challenges of financialization.

## CHAPTER 6

### CAPITAL FLIGHT FROM SOUTH AFRICA

#### 6.1 Introduction

This chapter will estimate and analyze capital flight from South Africa from 1986 to 2008. I use the residual method for calculating capital flight drawing on the methodology in Boyce and Ndikumana (2001).<sup>99</sup> This method allows one to estimate unrecorded capital outflows, including an estimate of trade misinvoicing. The usefulness of the residual method for this dissertation is that it provides an estimation of the capital resources lost to the domestic economy that could have been used to increase economic development or employment creation (Boyce and Ndikumana, 2001).

Capital flight links to the topic of this dissertation, which explores the allocation of capital in South Africa and how this allocation of capital contributed to the continued problem of poor accumulation (see chapter 1) in the economy. This chapter on capital flight is an important contribution to understanding the withdrawal of capital from South Africa and the low rate of capital accumulation because capital flight during 1986 to 2008 accounted for a sizable portion of the capital that would have been available for reinvestment in the South African economy. Therefore, it provides evidence that a significant portion of capital was misallocated, including during the post-apartheid period. In addition, I explore reasons for capital flight, which should provide important insights (and support for arguments in other chapters) regarding continued misallocation of capital (away from economic development) in South Africa. Further, capital flight has

---

<sup>99</sup> See Beja (2005) for a comprehensive discussion of different definitions and ways of measuring capital flight.

been a part of the process of financialization of the South African economy where, notwithstanding deregulation of South African financial markets and cross border capital flows, levels of capital flight have grown.

Previous studies of capital flight from South Africa (Smit and Mocke, 1991, Fedderke and Liu, 2002) have by and large ignored the changing political context within which capital flight has occurred. This chapter suggests that the factors influencing capital flight have changed because South Africa had a successful political transition from white domination under the apartheid system to democratic rule during the period we study.

Higher capital flight observed in the relatively more politically and economically stable period 1994 to 2000 (compared to the pre-democracy period 1986 to 1993) is reflective of the attitudes of wealthy white South Africans about the transition to democracy rather than political and economic uncertainty.<sup>100</sup> The analysis below will show that changes in liquidity in global financial markets affected capital flight from South Africa. Surges in net capital flows to South Africa were associated with higher levels of capital flight during the apartheid and post-apartheid periods. In addition, I draw on Fine and Rustomjee's (1996) discussion of the political economy of the industrialization process in South Africa to show how structural weaknesses in the economy may have contributed towards capital flight. Therefore, a closer investigation of capital flight provides important insights into the political economy of South Africa during this period.

---

<sup>100</sup> See Terreblanche (2002) for a discussion of white attitudes during the post-apartheid period.

From 1986 to 2006, average capital flight as a percentage of GDP was 5.3% percent a year. During the last 8 years of apartheid, from 1986 through 1993 average capital flight as a percentage of GDP was -1.7 percent a year. Post-apartheid, from 1994 to 2008 capital flight rose to an average of 9.0 percent of GDP per year.

Capital flight of such magnitude represents a huge misallocation of capital that impeded South Africa's development. Capital flight negatively affected the economy in the form of foregone private investment, tax revenue and potential public investment. The extent of accumulated capital flight from 1986 to 2008 was 41.4% percent of the value of cumulative gross fixed capital formation for the same period.<sup>101</sup> This level of capital flight represents many missed opportunities for promoting South African growth and poverty alleviation.

A common explanation for capital flight from developing countries is that wealth holders move their wealth out of a country because of political and economic uncertainty. Dornbusch (1987) and Alesina and Tabellini (1989) provide reasons for capital flight related to political and economic uncertainty. Dornbusch talks about a negative climate for investment. Alesina talks about uncertainty of future economic policies of new governments. They discuss capital flight as if it were a portfolio choice by an individual or firm. The transition to democracy in South Africa was a cause of much economic and political uncertainty for business. However, in South Africa wealthy people moved more money out of the country during the relatively more stable post-apartheid period than during the turbulent 1980s when the struggle against apartheid, international pressure and

---

<sup>101</sup> Cumulative totals for capital flight (including misinvoicing) and gross fixed capital formation are obtained by simply adding the nominal values for each year from 1980 to 2000 respectively. We do not consider potential rates of return on domestic capital or capital held overseas.

economic sanctions intensified. I would venture that capital flight in that situation was capital flight and not a choice about how to diversify one's portfolio of investments. A great many affluent South Africans, particularly those in the leadership of big business that became part of apartheid state security structures aimed at forcefully crushing opposition to apartheid during the 1980s, would have chosen flight of their capital out of the political territory controlled by a government elected by a black majority.

The increase in capital flight to a real average of 9 percent a year during the post-apartheid period suggests that wealthy South Africans wanted to move their assets outside of South Africa's borders; either in anticipation of coming macroeconomic distress or more likely in order to be out of the reach of a newly democratically elected government. Diaz-Alejandro's interpretation of capital flight in Latin America has resonance when analyzing capital flight from South Africa during the period after the 1994 elections. Diaz-Alejandro (1994) argues that private holders of capital will engage in capital flight to escape the costs of development in an economy. Diaz-Alejandro's point is interesting because one could interpret it in a narrow economic sense to mean that private holders of capital want to avoid losing part of their capital to taxes or other redistributive activities. A broader interpretation of Diaz-Alejandro's point would be that private holders of capital would be against supporting the development project because it symbolizes the end of their privilege and a status quo that they favored. Big business in South Africa had largely sided with a highly militarized and repressive apartheid regime that commonly used terms such as "war against black danger and the red onslaught".<sup>102</sup>

---

<sup>102</sup> See Terreblanche (2002). I do not list other references because I can give a first hand account of the apartheid state and business and their rhetoric since I lived through and fought against apartheid. Having experienced life in South Africa under the apartheid state and business I feel confident that, notwithstanding the façade of rationalism by business when they began engaging the future black leaders of

The political and economic elites that were willing to change did not support democracy that represented the votes of the majority. They patronizingly argued that black people in South Africa could not govern themselves and should be protected from the folly of trying to do so. The economic problems in the rest of Africa were used as evidence to support these views. My view is that in order to understand the economic problems of South Africa one has to look beyond superficial, ahistorical explanations such as those that focus on portfolio choices of individuals and undertake more careful, historically contextualized analysis to find political economy explanations of what happened to the South African economy and capital.

The wealthy seemed to maintain a distrust of the post-apartheid South African government despite the government's adoption of neo-liberal economic policies and their efforts to create a business friendly environment and their conservative approach to fiscal policy and monetary policy. This distrust will probably persist as long as the extremely high levels of inequality, unemployment and poverty continue in South Africa (Terreblanche, 2002). In addition, there are a host of complex emotional reasons, such as racial prejudice and feelings of lost power that may take several generations to wrest from South Africa, which might be motivating wealthy South Africans and corporations to move their money offshore (ibid.).

In addition to these reasons, a fundamental reason for large capital flows from South Africa to Britain and other developed economies is that there have been long-standing strong links between the families that owned the holding companies that

---

the country, capital flight occurred in the context where a patriarchal and patronising white government and business elite were filled with emotions of deep distaste, loathing, distrust, apprehension, fear, defeat, and loss.

controlled the largest, most powerful companies in South Africa and businesses in developed countries. Reasons for this are colonialism and imperialism. Wealthy South Africans have maintained or built strong ties with European and US businesses over a long period of time. Large finance houses like Citibank and Barclays Bank have historical and long-term interests in South African businesses and the large powerful families and corporations have significant interests in global financial businesses (Innes, 1984 and Pallister et al, 1998). They have financed South African mining houses since the discovery of diamonds in the 1830s and have had representatives on the boards of the major South African conglomerates or their subsidiaries. The internationalization of South Africa's large corporations and the offshore listings of some of the largest corporations have shifted ownership and control from families to institutional investors. The families that controlled these corporations earned large returns when selling their interests to give up control of these corporations. They used capital flight as one means to move their money out of South Africa. The shift from family control to institutional investors represents what Lazonick and O'Sullivan (2000) describe as a shift from patient to impatient capital.

South Africa's more recent integration, or more accurately reintegration, into the global economy during the post-apartheid period was an important reason for capital flight. Liberalization of trade and financial markets increased the vulnerability of the South African economy to shocks emanating from economic and financial problems in other parts of the world. In addition, large inflows of short-term capital into South Africa since 1994 when the government started a slow process of liberalizing financial markets increased exchange rate volatility, the risk of contagion and also vulnerability to financial



crisis in the country. Wealthy South Africans may have been involved in capital flight to hold assets in developed economies that until the recent global financial crisis were believed to be less risky and less vulnerable to financial crises and contagion. For example, a reason cited by companies for moving their primary listing from the Johannesburg Stock Exchange (JSE) to the LSE was that they wanted to reduce currency risks associated with being listed in South Africa (Roberts et al, 2003).

The rest of the chapter is structured as follows. The next section will provide a brief outline of capital flight literature specific to South Africa. Section three will discuss the methodology and data used for calculating capital flight. Section four will contain an in-depth discussion and interpretation of our results aimed at explaining the reasons for capital flight from South Africa. Section five is the conclusion of this chapter.

## **6.2 Literature Review**

The theoretical debates on capital flight mainly focus on portfolio choice decisions. From this perspective, profit maximizing investors will decide to invest abroad when risk-adjusted returns abroad are higher. Therefore, capital flight is seen as a response to changes to an individual's portfolio bundle arising from factors such as the fear of appropriation of assets, potentially higher taxes or perceived lower returns at home.

Most capital flight literature specific to South Africa utilizes the portfolio choice rubric. Khan (1991), Smit and Mocke (1991), Rustomjee (1991), Wood and Moll (1994), Fine and Rustomjee (1996), and Fedderke and Liu (2002) study various determinants of capital flight. These studies of capital flight are of interest because they attempt to

capture different features of capital flight; volume, motive and direction of capital flight unique to the South African experience. These analyses focus on capital flows, macroeconomic instability, fiscal policy, risk and returns to investment, and political instability as the central motivating factors for capital flight.

Of particular interest to my analysis are the findings of Fine and Rustomjee (1996) on the one hand, and Fedderke and Liu (2002) on the other. Fine and Rustomjee provide an informative discussion about the combination of factors that contribute to capital flight from South Africa. Their explanation of the causes of capital flight from South Africa include the structure of the economy, the degree of global integration of South Africa's major corporations and the country's failed attempt at financial liberalization in the early 1980s.

Fedderke and Liu, on the other hand ignore the structural and institutional factors affecting capital flight from South Africa and focus on political uncertainty and risk. They consider capital inflows as unconditionally good and capital outflows as bad. However, they do not make the link between surges of capital flows into South Africa and the instability in financial markets and volatility of the currency caused by these surges. Therefore, Fedderke and Liu fail to make the connection, which we show in this chapter, between changes in the liquidity in international financial markets, surges in net capital flows into and out of South Africa and capital flight. We attempt to explain capital flight by considering the combination of political instability, structural weaknesses in the economy and changes in net capital flows into the economy.

The South African capital flight literature is helpful in building a better understanding of the volume and flow of capital flight. While Wood and Moll argue that

capital flight has been relatively small, evidence from the rest of the literature indicates that by international standards capital flight from South Africa was high. Most authors agree that political instability is a major cause of capital flight. Yet, all of these perspectives, with the notable exceptions of Rustomjee (1991) and Fine and Rustomjee (1996), fail to specifically address the central political fact of the times: the white minority had control over capital and the structural and institutional framework within which choices on the allocation of capital were made.

Recent work by the international advocacy group Global Financial Integrity (GFI) included estimates of capital flight from South Africa (Kar and Curcio, 2011 and Kar and Cartwright-Smith 2008). Boyce and Ndikumana (2011) also provide updates of their earlier capital flight estimates for African countries. These new estimates also use the residual method or slight variants of the residual method for calculating capital flight. The recent work of GFI and Boyce and Ndikumana show that capital flight from South Africa was high during the 2000s.

In this chapter, we examine capital flight during a period that includes the apartheid and post-apartheid periods. We argue that the motivation of people involved in capital flight is different before and after the fall of apartheid. We show that during the post-apartheid period, when there was greater political stability and government had enacted economic policies favored by business, capital flight as a percentage of GDP rose to a higher level. We also contribute to the existing literature on capital flight from South Africa by extending the time period to 2008<sup>103</sup>.

---

<sup>103</sup> Except for the recent work for a submission to the SARB by the Corporate Strategy and Industrial Development Research Programme in 2010 opposing the second Amnesty for South Africans illegally holding money abroad, which I contributed to and use in this chapter, the next most recent period investigated in the South African capital flight literature ends at 1995 (see Fedderke and Liu, 2002).

### 6.3 Method and Data

This study draws on research I contributed to calculate capital flight from South Africa from 1980 to 2000 (Mohamed and Finnoff, 2005) and from 1986 to 2008 (CSID, 2010).<sup>104</sup> Both of these studies employed the methodology outlined by Boyce and Ndikumana (2001). We adopted the residual approach and adjusted it by adding trade misinvoicing<sup>105</sup>. Capital flight was estimated using the following equation:

$$ADJKF_t = \Delta DEBT_t + NFI_t - (CA_t + \Delta RES_t) + MISINV_t \quad (1)$$

where  $\Delta DEBT$  is the change in South African stock of external debt<sup>106</sup>;  $NFI$  is net foreign investment;  $CA$  is the current account deficit;  $\Delta RES$  is the change in the net stock of foreign reserves; and  $MISINV$  is net trade misinvoicing.

Using the above approach, we calculated the difference between total capital inflows and recorded foreign exchange outflows. To obtain an estimate for capital flight

---

<sup>104</sup>The chapter by Finnoff and me and drew heavily on research and writing I had done for this dissertation. The CSID's submission to the SARB opposing the second amnesty for South Africa's illegally holding money abroad was led by me as director of the CSID. I had initiated the updating of the capital flight estimates in Mohamed and Finnoff (2005). I worked with Susan Newman who was then a senior researcher in the CSID. Susan Newman collected the most recent data at that time and completed the updated estimates. My role had been providing her with the calculations and methodology used in Mohamed and Finnoff (2005) and examining her calculations. In addition to Susan's work on the submission, Samantha Ashman, another senior researcher with CSID at the time, and Ben Fine of the London University and a visiting senior researcher with the CSID, were also involved in drafting the submission to the SARB. Ashman, Fine and Newman subsequently published an article in the Review of Southern African Studies drawing on their work in the submission to the SARB (Ashman, Fine and Newman (2010).

<sup>105</sup> We modify Boyce and Ndikumana's (2001) calculation to obtain a more conservative estimate for trade misinvoicing. Boyce and Ndikumana's calculation assumes that the levels of trade misinvoicing for the African countries they examine are the same in developed and developing countries. In order to provide a conservative estimate of capital flight from South Africa, we assume that there is no misinvoicing of trade to and from developing countries.

<sup>106</sup> Boyce and Ndikumana (2001) use an adjusted change in external debt variable to revalue foreign debt taking into account cross currency exchange rate fluctuations. South African debt data decomposed by different currencies was not available for the time period we were investigating.

we added the change in debt from the previous year to net direct and portfolio investment flows and subtracted the current account balance and the change to foreign reserves from the previous year. We then added trade misinvoicing (calculated by comparing South Africa's reported trade data to their trading partners' data) to capital flight to obtain an adjusted capital flight (ADJKF) estimate.

The data used to calculate the change in stock of external debt is from international financial statistics (IFS). The IFS does not provide a breakdown of long-term debt into the currencies it is held in, thus we were unable to adjust debt for exchange rate changes of currencies that are held against the rand<sup>107</sup>. Net foreign direct investment was calculated using data from the International Monetary Fund<sup>108</sup>. Current account data and change in reserves data were also obtained from IMF data.

The data used to calculate trade misinvoicing was from the IMF's direction of trade statistics (DOTS). Some authors have called into question the quality of trade data from South Africa prior to democratic elections in 1994 (Wood and Moll, 1994). During apartheid a number of goods, including oil, were officially labeled as strategic and it was illegal to report statistics on these goods. It is likely that in an effort to circumvent sanctions a significant portion of international trade with South Africa may not have been reported. Prior to 1998, trade data for South Africa were included in the trade of the South African Common Customs Area. SACCA includes Botswana, Lesotho, Namibia, South Africa, and Swaziland. Beginning in 1998, SACCA trade data are reported separately as South Africa and SACCA excluding South Africa. In order to make the

---

<sup>107</sup> Global development finance (GDF) has available decomposed debt data from 1994.

<sup>108</sup> IFS only has data for South Africa from 1985.

series consistent we add these two series together for the post 1998 period. South African trade accounts for the majority of SACCA trade.

#### 6.4 Estimates of capital flight

**Table 6.1: Capital flight calculations (\$US millions)**

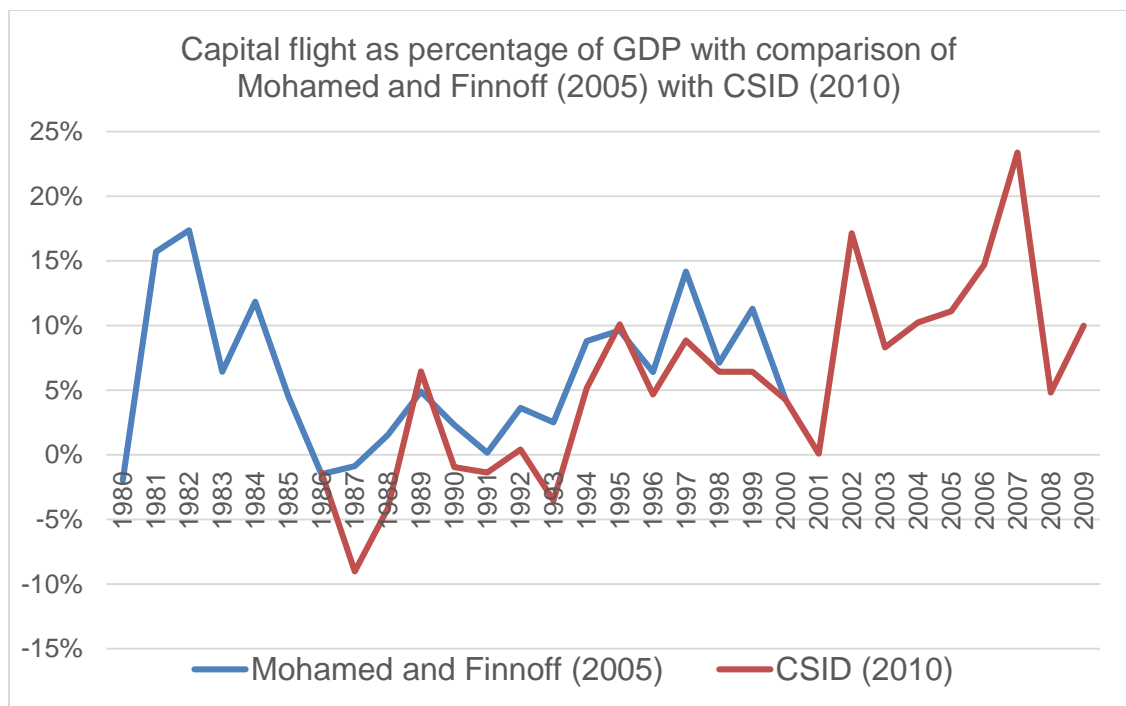
Year	Change in debt	Net Foreign investment	Current Account	Change in Reserves	Capital flight	Misinvoicing	Adjusted capital flight	Real Adjusted capital flight
1986	-1128	-2403	2773	-4	-6301	5407	-894	-5887
1987	25	-1609	5106	210	-6900	-824	-7724	-41265
1988	-1433	-1813	2566	272	-6084	2247	-3836	-17544
1989	4569	-972	1514	221	1862	4330	6192	24379
1990	-2481	-337	1545	57	-4419	3359	-1060	-3526
1991	1645	-1132	1416	-42	-861	-781	-1642	-4820
1992	1873	-801	1963	196	-1087	1642	555	1444
1993	218	-1683	2777	134	-4376	-208	-4585	-11027
1994	2693	998	16	707	2969	4036	7005	15753
1995	5639	5752	-2494	1189	12696	2543	15239	31254
1996	-801	2453	-1655	-1367	4674	2050	6724	12343
1997	4690	5633	-2220	4112	8431	4746	13177	22131
1998	-1307	2668	-2370	393	3338	5280	8618	13302
1999	1241	3172	-680	2221	2872	5677	8549	12615
2000	-2152	275	-172	999	-2704	8377	5674	7962
2001	-5951	-2700	333	3167	-12152	12266	114	150
2002	2941	1180	918	-2116	5318	13739	19057	23055
2003	5307	-1917	-1806	-1042	6237	7598	13835	14494
2004	5705	6833	-6909	4777	14671	7483	22153	22698
2005	3579	11992	-9778	6846	18503	8461	26964	26964
2006	10803	15766	-16274	6378	36464	1443	37908	35198
2007	15879	21789	-20734	5789	52613	13637	66250	55467
2008	-3464	12552	-20475	10058	19505	-6162	13343	9773

Source: CSID (2010)

The results of the CSID's calculations using the described methodology is provided in Table 6.1. Each of the component of capital flight is provided and when added to

misinvoicing the result is the adjusted capital flight. The adjusted capital flight figure is used as the measure of capital flight in the discussion section below. Figure 6.1 compares the estimates in Mohamed and Finnoff (2005) and CSID (2010). The next section discusses the results using the updated calculations of CSID (2010).

**Figure 6.1: Capital flight as percentage of GDP with comparison of Mohamed and Finnoff (2005) with CSID (2010)**



Source: Mohamed and Finnoff (2005) and CSID (2010)

## 6.5 Discussion of results

In Mohamed and Finnoff (2005), my coauthor and I find that average annual capital flight as a percentage of GDP was higher following the transition to democracy in 1994 than it was in the period 1980 to 1993, indicating that the motivation for capital flight during the later period was different. The updated estimates bear out our finding that capital flight during the earlier period may have been caused by political instability. During the later

period it seems to have occurred because wealthy white South Africans were uncomfortable with the transition to democratic rule. The latest estimates of capital flight give us insight into the period after 2000 until the global financial crisis in 2008 (see Table 6.1). I show in Chapter 5 that this was a period where short-term portfolio capital inflows to South Africa are associated with increasing extension of credit to the private sector and bubbles in financial and real estate asset markets. The surge of short-term capital inflows during the period from 2003, which peaked in 2006 to 2007 occurred when there were also very high levels of capital flight from South Africa.

Mohamed and Finnoff (2005) say that capital flight as a percentage of GDP peaked during the 1980–85 period when there was a surge in the volume of short-term bank lending, as South Africa became a preferred destination for international lenders after the Latin American debt crisis. It peaked again during the 1994–2000 period when South Africa received large portfolio capital flows as a result of the increased liquidity in international financial markets in the 1990s. As mentioned above, the surge in capital flows before the 2008 to 2010 global financial crisis was accompanied by the extraordinarily high level of capital flight at 23 percent of GDP in 2007.

Mohamed and Finnoff argue that structural weaknesses in the economy may be an important factor in explaining why wealthy South Africans chose to take their wealth out of South Africa rather than invest within the country. This argument draws on the work of Fine and Rustomjee (1996) that says the South African economy developed around a minerals and energy complex. The argument developed here agrees with this perspective and takes lessons from the literature on financialization and applies it to South Africa to complement the MEC analysis. In other words, in addition to the political reluctance and



weak industrial structural issues that may have limited investment there was also financialization of large nonfinancial corporations that caused them to prefer to keep their capital liquid rather than to commit to long-term investments.

Figure 6.1 shows the trends in capital flight (ADJKF).<sup>10</sup> Capital flight exhibits substantial volatility over the 20-year span, peaking in 1981–1982, in 1984 and again in 1995, 1997, 2002 and 2007. The troughs in capital flight occur in 1980, 1987, 1993, 2001 and 2008. Mohamed and Finnoff (2010) say that capital flight remained high during two periods, from 1980 to 1985, at 10.3 percent of GDP, and from 1994 to 2000 at 9.2 percent of GDP. We calculated that the amount of capital that left South Africa during this period would have added up to \$238 billion if it had been invested in low-yielding (and low-risk) instruments.

Figure 6.1 shows capital flight as a percentage of GDP. I compare the estimates of Mohamed and Finnoff (2005) and CSID (2010). CSID (2010) relies more heavily on IMF IFS data than Mohamed and Finnoff (2005) and since the estimations use different data sources it is not surprising that the curves are not exactly matched. The CSID reliance on IFS data also means that it can provide estimates of capital flight only from 1986 onwards. Mohamed and Finnoff estimate that from 1980 to 1985 capital flight from South Africa averaged 10.3 percent of GDP. During this period the vast majority of capital flight occurred with increasing levels of debt. Debt rose during the early 1980s as the government took on a large share of short-term loans for large projects (Fine and Rustomjee 1996). Foreign short-term loans to private borrowers also increased significantly as South Africa was perceived favorably by international lenders for a few years after 1982, when some other developing countries were defaulting on their debt.

Mohamed and Finnoff show that trends in debt levels closely followed the trend in capital flight, suggesting, at the very least, that they were codetermined from 1980 to 1985. They also argue that the real effective exchange rate (REER) seems to have been affected by the increased levels of debt as well. They say that due to a surge in net capital flows, especially in short-term debt, both capital flight as a percentage of GDP and the REER followed a similar trend from 1980 to 1985, with capital flight lagging by a year. They say that from 1984 to 1985 the collapse of net capital flows led to a sharp decline in the REER and capital flight and that during this early period, misinvoicing also followed capital flight closely. They say misinvoicing rose in 1981–1982, fell in 1983 and rebounded to reach a peak in 1985. During this time, misinvoicing was driven by underinvoicing of exports to industrialized countries.

The macroeconomic environment of South Africa was particularly volatile during the 1980s. South Africa had high current account deficits and a growing debt burden from the 1970s (Lowenberg, 1997). The apartheid government, which faced increased international isolation, borrowed heavily to finance a number of large investments. One of these investment projects was Sasol, a project to produce oil from coal. The government also spent large amounts on its military and the state-owned arms industry to support its aggression in the Southern African region and within South Africa. These expenses were in addition to the waste and inefficiency associated with maintaining the apartheid system. The apartheid government attempted a liberalization of financial markets in 1980 but was forced to abandon this policy in 1985 when the debt crisis occurred.

At the same time that South Africa was experiencing economic instability, the anti-apartheid struggle was undergoing a resurgence. There was ongoing mobilization of students from 1980 while the emergence of political trade unionism led to a series of strikes in 1981. In 1983, the United Democratic Front, a national alliance of community organizations (women's, youth, civic and cultural organizations) and trade unions, was launched. The intensification of the struggle led to the apartheid state declaring a state of emergency in 1985.

The combination of political and economic instability contributed to the development of the debt crisis in 1985 as lenders and other investors became less willing to invest in South Africa. Pressure by anti-apartheid organizations in other countries put pressure on banks to stop lending to South Africa and to disinvest. The success of the disinvestment campaign in developed countries increased during the early 1980s with 47 US companies leaving between 1984 and 1985 (see Jenkins 1990). It seems that economic problems and the anti-apartheid struggle reinforced one another. On the one hand, the weakening economy and the debt crisis fueled the struggle internally. On the other hand, the intensification of the struggle, which was met by severe repression by the apartheid state, fueled economic problems and provided ammunition for anti-apartheid activists to push for the imposition of further economic sanctions and disinvestment by the international community.

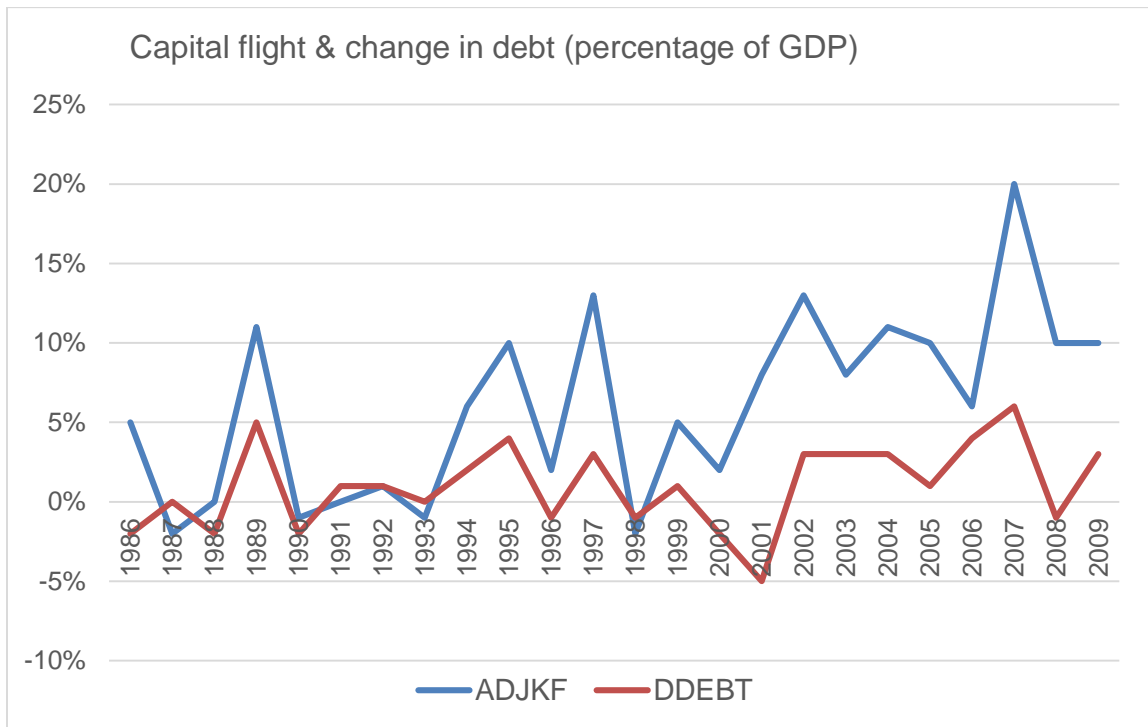
Both Mohamed and Finnoff (2005) and CSID (2010) show a decline and reversal of capital flight (i.e. capital flight turned negative) from 1986. The CSID estimate shows a larger negative capital flight figure than Mohamed and Finnoff (2005). One possible explanation for the reversal in capital flight then was that after the 1985 debt crisis South

Africa, like the countries that suffered the 1981 international debt crisis, was unable to attract foreign capital inflows and was forced to run a trade surplus. Another possible explanation follows the argument by Terreblanche (2002), presented in Chapter 2, where he says that big business not only aligned themselves with the apartheid state but also bolstered the apartheid economy by buying up the businesses of foreign investors that were divesting from the South African economy. Pallister et al (1988) argue that the South African corporations got good bargains as a result of divestment. It is possible that big business would have brought money into South Africa to support these purchases and that their motives could have been a combination of acquiring bargains and bolstering the apartheid state.

Mohamed and Finnoff (2005) argue that repayment of debt, efforts to build up foreign reserves and net outflows of investment may also have contributed to lower levels of capital flight (see Figures 6.2 and 6.5). As in the 1980–1985 period, capital flight and the REER were affected by similar factors. Between 1986 and 1993, capital flight and the REER seemed to respond to the reduction in capital flows leaving the country and the maintenance of a positive trade balance during this period.

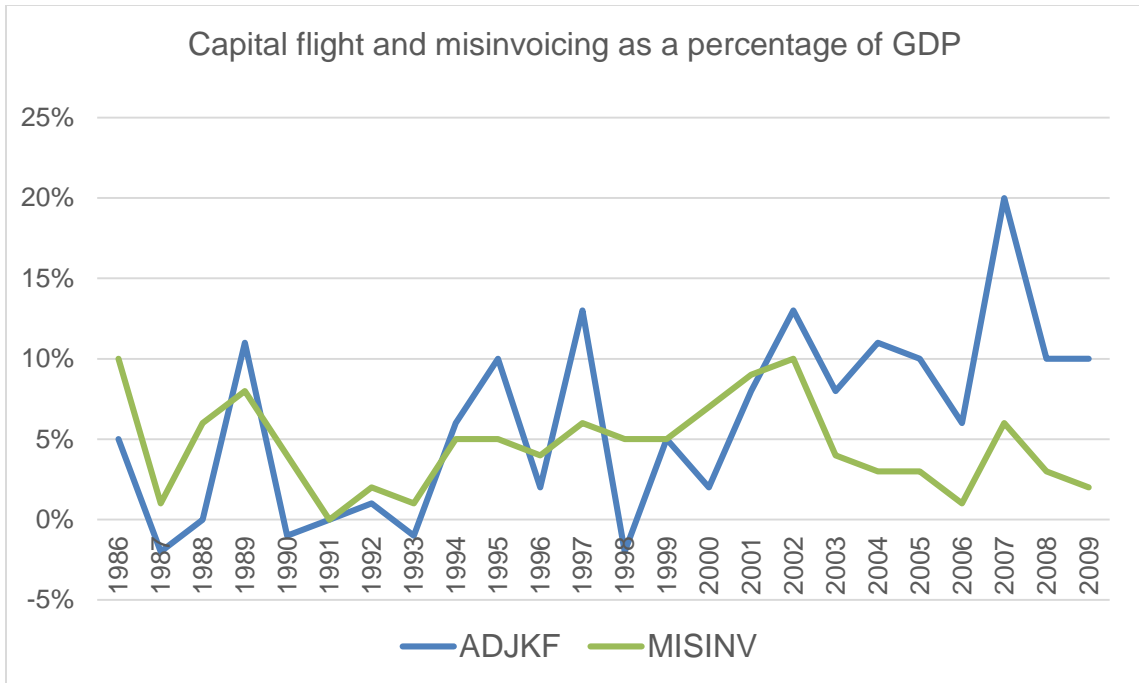
The negative levels of capital flight did not last long. There was resurgence in capital flight as a percentage of GDP in 1988 and 1989 when misinvoicing as a percentage of GDP increased (see Figure 6.3). Mohamed and Finnoff explain that the introduction of the General Export Incentive Scheme (GEIS) in 1990 had an interesting influence on capital flight because it affected the behavior of firms involved in misinvoicing. The GEIS led to significant overinvoicing of exports from 1990 to 1994 as exporters tried to take advantage of the export subsidies provided by the government.

**Figure 6.2: Capital flight and change in debt as percentages of GDP**



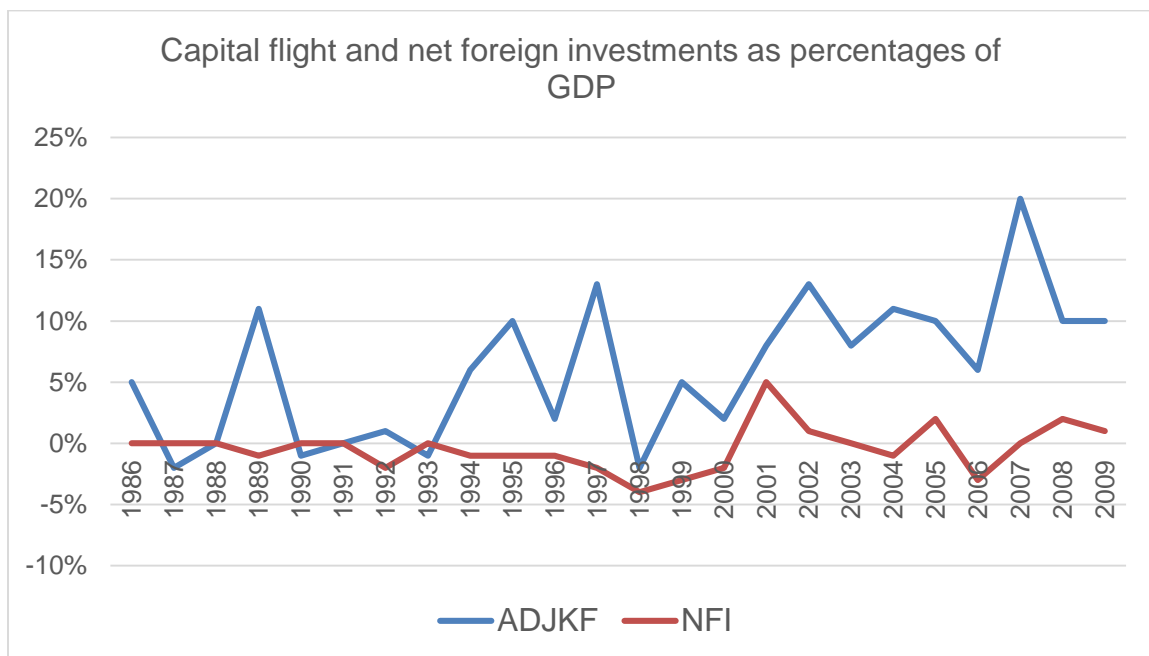
Source: CSID (2010) and IFS

**Figure 6.3: Capital flight and misinvoicing as a percentage of GDP**



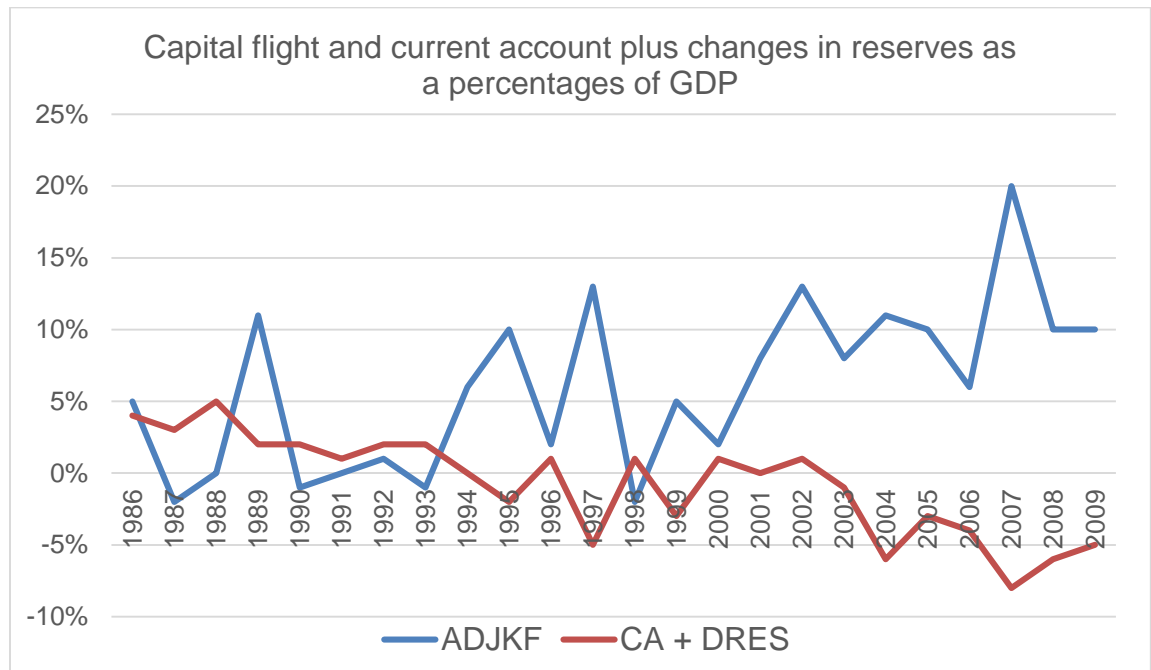
Source: CSID (2010) and IFS

**Figure 6.4: Capital flight and net foreign investments as a percentage of GDP**



Source: CSID (2010) and IFS

**Figure 6.5: Capital flight and current account plus changes in reserves as a percentages of GDP**



Source: CSID and IFS

The change in misinvoicing behavior could be inferred from the significant decline in underinvoicing of exports once GEIS was introduced. Mohamed and Finnoff calculated that underinvoicing of exports dropped from 3.3 percent of GDP to 0.3 percent of GDP in 1993. As the GEIS was phased out between 1994 and 1997, underinvoicing of exports as a percentage of GDP increased; by 1997 it returned to the 1989 level and by 2000 to 5.2 percent. Therefore, export overinvoicing due to the General Export Incentive Scheme (GEIS) in combination with low levels of net capital flows may have accounted for the relatively low levels of capital flight as a percentage of GDP from 1990 to 1993.

Mohamed and Finnoff also found that overinvoicing of imports as a percentage of GDP increased from 1991 through to 1994. We speculated that this rise may have occurred because there was less capital flight due to underinvoicing of exports as a result

of the GEIS. In other words, people involved in capital flight who wanted the GEIS subsidy may have stopped underinvoicing exports and instead compensated for this decline by overinvoicing imports. Our argument was supported by the fact that the level of import overinvoicing dropped off once underinvoicing of exports recovered. Mohamed and Finnoff estimate that overinvoicing of imports, as a percentage of GDP, dropped from 3.5 percent in 1994 to 2.3 percent in 1995 and stayed around that level until 2000.

The lifting of the ban on the ANC and other political organizations and the release of political prisoners in 1990 signaled the end of apartheid and ushered in new hope for greater political stability. Negotiations over a new constitution and democratic elections also started in 1990 and picked up pace in 1991. However, by 1992 the ANC publicly referred to the existence of a ‘third force’ that wanted to derail the movement towards democracy. It seemed that certain political parties were using political violence to improve their negotiation position. This violence may also have contributed to the increase in misinvoicing from 1991 to 1992 (see Figure 6.3).

Net portfolio capital flows were positive from 1991 onwards, reflecting the strong growth in international liquidity in the 1990s. Between 1994 and 1996 the business sector in South Africa was relatively unsure of the ANC government’s economic policies. Its members were afraid that the ANC would adopt policies that would hurt them, nationalize private property and expropriate wealth in order to redistribute wealth and to improve the lives of the majority of South Africans. They were also concerned because the economy had been in decline throughout the 1980s. The Nationalist Party had increased public debt significantly during the pre-election period as it attempted to buy



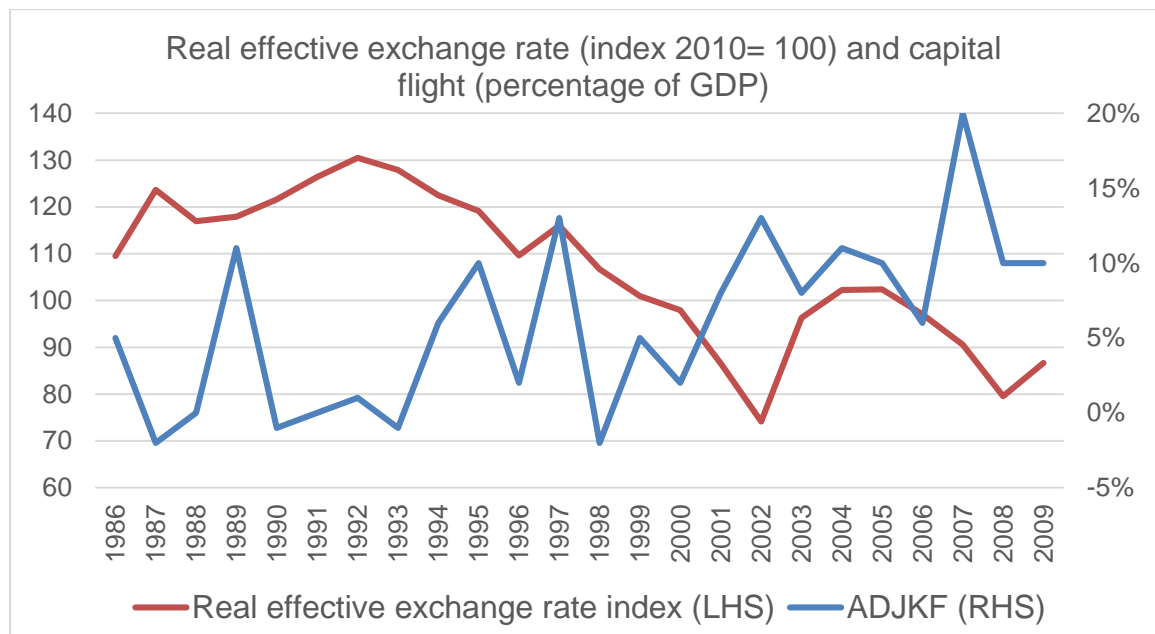
votes on a large scale. There were fears that the new ANC government would increase debt further in an attempt to improve the lives of the majority of South Africans.

After the democratic elections in 1994, the African National Congress (ANC) government chose to adopt neoliberal economic policies to appease local big business interests and to attract foreign investors. They did increase social spending and delivery of basic services but within the constraints of tight fiscal policy. They also supported development of black business elite by promoting black ownership of businesses and implementing affirmative action policies. However, the overall structure of the South African industry, which had failed to significantly diversify out of the mining and mineral industrial sectors, had not changed much during the 1994 to 2000 period. Financialization of the economy and internationalization of some of the largest corporations gathered pace during this period. From 1994 to 1995, capital flight and the REER did not follow a similar trend (see Figure 4.7). The REER did not respond to the surge in net capital flows from 1993 and continued to decline. This may have been due to political instability before the elections and uncertainty about the new government's policies.

The adoption of neoliberal economic policies in the Growth, Employment and Redistribution (GEAR) program in 1996 reassured the business community about the ANC government's economic policies. Around the same time, political violence was brought under control and a degree of political stability was achieved. The recovery in the REER from 1996 to 1997 in response to the very large increase in net portfolio flows may well have been due to improved investor sentiment. However, contagion from the Asian financial crisis and the subsequent financial instability in several developing countries seem to have caused a decline in the REER of the rand after 1997.

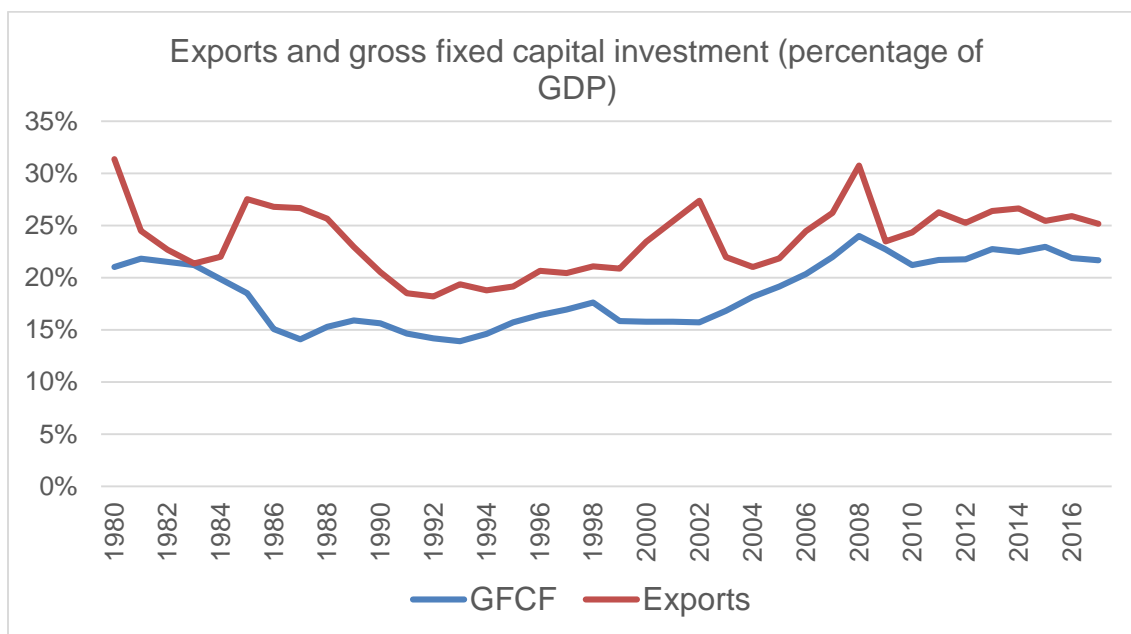
Despite the achievement of political stability and the adoption of the types of economic policies that the business community wanted, misinvoicing continued to grow until 2002. It seems that wealthy elites behaved differently in the post-election period. During the pre-election period misinvoicing was volatile and responded to significant events affecting the economy. However, during the post-election period misinvoicing grew. The behavior of the wealthy elites after the elections seemed to indicate a sustained effort to build up wealth reserves outside of South Africa rather than a knee-jerk response to larger problems as in previous years. A possible reason for this capital flight was that a large proportion of the business community in South Africa continued to have fears and insecurities about the new democratically elected government.

**Figure 6.6: Capital flight and the real effective exchange rate**



Source: CSID (2010) and SARB

**Figure 6.7: Exports and gross fixed capital formation as a percentage of GDP**



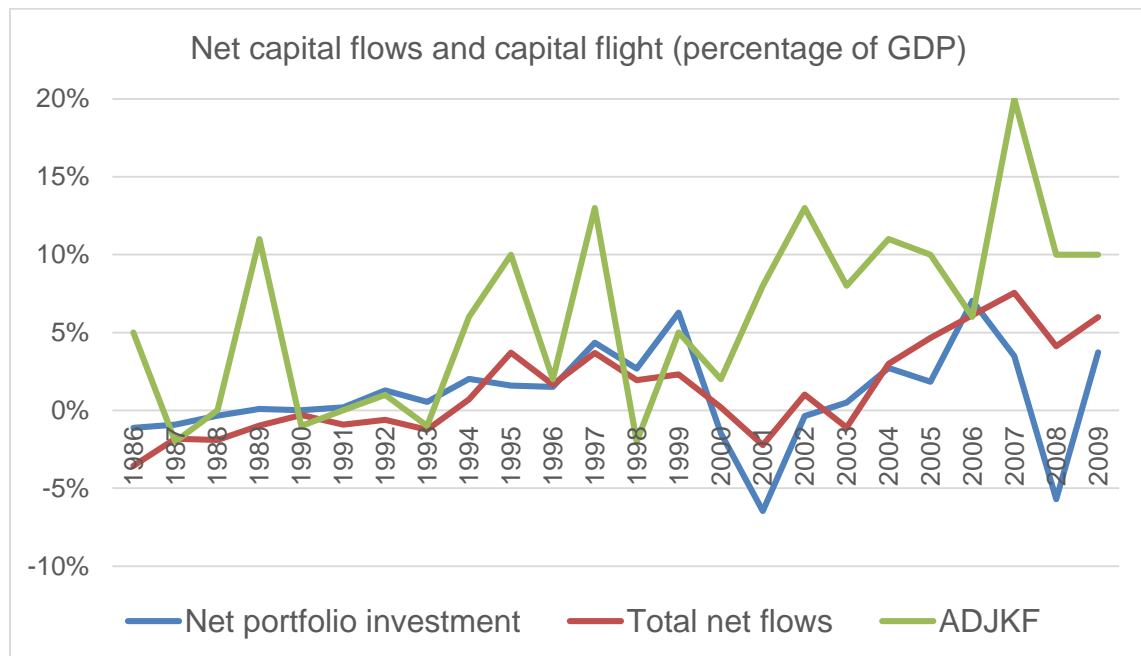
Source: SARB

However, uncertainty and insecurity about the new government’s policies are not enough to explain the behavior of South African elites. The poor performance of the South African economy is an important motivating factor for capital flight. Figure 4.8 shows that wealthy elites reduced their level of investment from 1982 onwards. At the same time business and household savings declined. Average business saving as a percentage of GDP declined from 6 percent during the turbulent 1980 to 1993 period to 5 percent during the period 1994 to 2000 while household average savings as a percentage of GDP was 3 percent for the 1980 to 1993 period and dropped to 0.8 percent for the period 1994 to 2000. Figure 4.8 also shows that exports as a percentage of GDP declined over the period 1980 to 1982, except for a one-year rebound in 1985. Exports did improve during the period before the global financial crisis and so did investment. It is notable that capital flight declined from 2003 to 2006 at the same time debt driven

consumption and increased commodity prices and exports had a positive impact on investment levels. The poor performance of the South African economy may have reinforced the determination of wealthy South Africans to build up offshore assets. At the same time, capital flight contributed to the poor performance of the economy by depleting resources the country needed for investment in future growth.

### 6.5.1 Capital flows and financial instability

**Figure 6.8: Net capital flows and capital flight as percentages of GDP**



Source: CSID (2010) and SARB

South Africa's deregulation of financial markets and reintegration into the global economy at the end of apartheid increased the vulnerability of the economy to financial crises, providing the incentive for increased capital flight. In Chapter 5, I show that periods of macroeconomic instability and vulnerability are caused by surges in net capital

inflows, particularly large increased in portfolio capital inflows. There were 3 occasions during the last three decades when there were crises and contagion in the South African financial system: the debt crisis in 1985, the currency crisis in 2001 and the economic downturn and loss of approximately one million jobs during the 2008 to 2010 global financial crisis. Inadequate capital controls may have contributed to these periods of crises and contagion, as all these events were preceded by surges in net, short-term capital flows and sudden sharp declines in these flows.

The surges in net capital flows to South Africa during the early 1980s, after 1994 until 1999 and again after 2003 until 2007 (see Figure 6.8) may have made some contribution to the growth in capital flight in both periods. The peaks in capital flight in 1982 and 1997 were clearly the result of the peaks in net capital flows into South Africa in those years (see Figure 6.8 and Mohamed and Finnoff, 2005). The flows absorbed into the economy after 1994, which were largely in the form of short-term portfolio investment, led to lower real interest rates and a boom in credit to the private sector. However, as can be seen in Figures 6.7 and 6.8, these flows were not utilized for productive purposes. I show in Chapter 5 that the surge in net capital flows was associated with increased consumption, imports of goods and services and capital flight and not with productive investment in the economy. The surge in net capital flows could not last; it collapsed in 2000. This collapse in capital flows probably contributed to the increase in misinvoicing from 5 percent of GDP in 1999 to 7.5 percent of GDP in 2000 (see Chapter 5 for discussion of the impact on the economy of surges in capital flows, including that during the 2003 to 2007 period).

Wealthy South Africans may have engaged in capital flight in order to hold their assets in economies that are less vulnerable than South Africa to financial crises and contagion. This reason has been used by companies to explain their decision to move their primary listing from the Johannesburg Stock Exchange to the London Stock Exchange during the 1990s and early 2000s. They claimed that they want to reduce currency and other risks associated with being listed in South Africa, which is classified as an emerging market. They have been unable to make this argument since the global financial crisis but have not had to justify their withdrawal of capital from South Africa during the 2000s because of the removal of exchange controls.

The ANC government believed that foreign investment was important for further industrialization of the South African economy and seemed to pay very little attention to whether foreign investment was short-term or long-term. The government adopted neoliberal economic policies, which included little control over capital movements by non-residents, to attract foreign investment. The result of these policies was wasteful use of the surge in portfolio flows by private borrowers, a currency crisis in 2001 and more capital flight. The policy conclusion that can be drawn from this discussion is that capital controls are necessary in South Africa as they may reduce capital flight by addressing the country's vulnerability to financial crises and contagion.

## **6.6 Conclusion**

Interpretation of the estimates of capital flight and South African economic history leads me to believe that capital flight from the South African economy has been rampant. It was affected by the ebb and flow of capital flows into and out of the economy.

Misinvoicing, even a conservative estimate, was an important source of capital flight that remained consistently high. Tracking misinvoicing provides important insights into how wealthy South Africans who engaged in capital flight behaved before and after the 1994 democratic elections. Wealthy South Africans seemed to have made a concerted effort to build up wealth outside South Africa, despite the relative political stability and the adoption of neoliberal policies that they favored. Racism, fear and a sense of loss of power may be important explanations for capital flight in conjunction with the structural weaknesses of the South African economy that limited diversification and stifled investment. The control by a few white-owned and controlled conglomerates that had power over the major financial institutions in the country and also had deep ties with capital in advanced industrial countries provided an important reason for capital flight. Financialization of the South African economy included unbundling of the conglomerates, offshore listing of some of the largest South African corporations and the entrenchment of impatient capital who want to shift their capital all over the world without concern for regulations.

## CHAPTER 7

### CONCLUSION

Mainstream economics explanations of low levels of investment and high unemployment in the South African economy blame microeconomic factors, such as inflexible labor markets, inadequate numbers of skilled workers, low levels of worker productivity, high costs of doing business, poor infrastructure and government red tape and corruption (World Bank, 2001). They argue that the South African economy is stable because government has adopted the correct macroeconomic and finance policies. They give the impression that private business is efficient and that the financial sector is sophisticated and able to withstand global financial turmoil. Their answer to South Africa's problems is to fix the microeconomic problems through labor market deregulation, better education, private provision of infrastructure, cutting red tape and fighting corruption (see for example Government of South Africa's National Development Plan, 2012).

This dissertation does not disagree that there is a need to deal with many microeconomic issues. However, it sees the microeconomic problems as linked to the particular set of historical and institutional factors that shaped the economy. It argues against a decontextualized identification of microeconomic problems without taking into account the macroeconomic environment and the way in which big business and the state shape that environment. It also challenges the view that South Africa had achieved macroeconomic stability. The decision to implement neo-liberal macroeconomic policies and financial deregulation created huge problems for the economy. Further, I show that



South African big businesses have been an important part of the economic problems in South Africa.

The large corporations with access to capital, management capabilities and experience in global markets, could have contributed to addressing the structural weaknesses in the economy but had instead chosen to restructure and internationalize their operations in a way that perpetuated poor accumulation in the economy. Big business and the equity markets seem ever more detached from the real sector and South African realities on the ground. A large proportion of big businesses have listed outside of South Africa or cross-listed. These big businesses have generally been focused outside of South Africa in terms of expansion of operations and allocation of capital. Domestic financial markets have integrated with global markets. The historically dominant big businesses remain active in South Africa while international portfolio investors, many of them unanchored in domestic markets, control portfolios that control a larger share of the capitalization of the Johannesburg Stock Exchange.

At the same time, a significant share of capital was allocated towards capital flight from the economy further exacerbating the withdrawal of big business from the economy and reducing domestic capital available for accumulation. Moreover, despite the government's focus on attracting more capital inflows as a development strategy, increased foreign capital flows entering the economy since the end of apartheid have not increased the level of accumulation. Instead, these flows seem to have been allocated towards non-productive activities and seem to be disruptive for the economy.

These problems in the all-important accumulation process therefore suggest that the policies of the post-apartheid government have not adequately addressed the

structural weaknesses in the economy or managed to significantly improve the allocation of capital towards enhancing the rate of capital accumulation. The policy choices did not constrain the misallocation of capital in South Africa over the transition to democracy nor did it in the post-apartheid period. These policies choices helped influenced the direction of the South African economic growth path in a negative way.

In more specific terms, I argue that the structural weaknesses of the economy, the intense dominance of a few corporations and the close relationship of South African capital with international capital combined with the post-apartheid government's adoption of neo-liberal economic policies have not only channeled credit, savings and investment to areas of the economy where big business can extract economic rents, these include specific services sectors and a few mining and minerals processing sectors, but also to massive hemorrhaging of capital out of South Africa.

In addition to the role of big business, the enormous impact of political changes in South Africa, including the changing power relations between capital and labor, have played an important part in shaping the economy. These factors have been considered within the context of major changes in the global economy. History of the development of South African industrialization provides insight into the close relationship between South African big business and international capital. Understanding the external and internal forces influencing South Africa's industrialization as well as the role of the colonial and apartheid states help explain the continued concentration of economic activity in certain sectors such as finance, mining and minerals processing. The large corporations that had dominated finance and mining and minerals processing continue to dominate the economy. These dominant corporations have chosen to limit their allocation

of capital towards diversification out of the mining, minerals processing and related sectors into downstream manufacturing.

Big business worked closely with the apartheid state to prop up the economy during the politically turbulent 1980s when community and labor struggles were advancing and international pressure and economic isolation of the economy intensified. The economy was dominated by diversified conglomerates. These large groups bought up the assets of foreign companies that left South Africa. In fact, there seemed to have been a reversal of capital flight during this period (see Chapter 5).

After democracy there was huge restructuring of the South African corporate sectors. Many of the largest conglomerates embarked on a process to increase their international operations and to reduce their South African businesses. Obeying the demands of the shareholder value movement they simplified their corporate structures and increasingly focused on core business activities when they restructured. In short, much of big business had diversified their businesses to reduce their exposure to the South African economy after 1994. At the same time, South Africa had a weak industrial structure focused around the MEC because of the political and economic historical processes that shaped its industrialization. The corporate restructuring further weakened the industrial structure of the economy.

The economic policies of the new democratic government aimed to attract and appease foreign finance and investment. It was probably believed that foreign investment would pour into the new South Africa and reshape and modernize the industrial landscape. The economic policies were deliberately neo-liberal because it was believed that foreign investors would be attracted to a country where the government is willing to

show its credibility by ensuring low inflation and low budget deficits. The government did not adopt or implement an industrial policy that could address the industrial structural weaknesses because their neoliberal policies favored less state intervention in the economy.

The South African government proclaimed that it strived to construct a developmental state at the same time that it implemented neoliberal macroeconomic policies. The state remained a major player in the economy through attempting to alleviate the impact of poverty through social programs, grants, increasing access to housing, water, electricity, education and health services. It retained ownership of state owned enterprises and development finance institutions. However, the adoption of a neoliberal approach and a shift towards seeking market-based solution seemed to have hindered the willingness of the government to play the leadership and coordination role that would have supported a developmental state.

After the end of apartheid and during the period when large corporations were restructuring there was an absence of the coordination and cooperation that existed between the apartheid government and big business. When the post-apartheid government allowed many of the largest corporations to move their primary listings abroad the leadership role of the largest corporations reduced in South Africa. The attention of the leadership of South African business shifted abroad and over time was absorbed and dispersed across global operations. As the large corporations increasingly succumbed to pressures from institutional investors and the shareholder value movement it seemed that the national leadership role that had been played by government and

businesses during apartheid was abandoned and the coordination and plans for business would be left to the short-term vagaries of institutional investors.

At a more concrete level, this lack of leadership and coordination can be seen if we briefly return to the Anglo case study. One of the engineering companies in the Anglo group was Borat Long year. It was part of Anglo for 30 years and was sold off in 2005 when Anglo was pressured by institutional investors to focus on core business. In 2005, Borat Long year was sold to private equity firms Advent International, Bain Capital and several management investors.<sup>109</sup> Borat Longyear's headquarters moved out of South Africa and the company was loaded with debt by its new private equity owners. The South African operations were sold off as part what the Borat Long year website describes as "numerous ownership changes and restructuring initiatives" (see footnote 102). One of the two companies that bought South African operations has gone out of business. The decline of South African mining engineering firms may be related to more difficult condition in mining and the downturn in commodities prices after the global financial crisis but one cannot ignore the role played by corporate restructuring and institutional investors in the contraction of the sector.

It seems that the inability or possibly the choice of government not to take on the role of a developmental state in leading and coordinating business has left that role to institutional investors. At the same time, the large corporations that have restructured, such as Anglo, still dominate markets within South Africa but have most of their operations abroad. As Karwowski (2015) showed, they use the South African equity markets to finance their speculative activities and do not direct portfolio inflows they

---

<sup>109</sup> See the Boart Longyear website for the history of the company <https://www.boartlongyear.com/company/history/>

receive into productive investments. Instead of coordinating with government these corporations have become lobbyists for labor market flexibility, lower taxes, low government deficits and credible macroeconomic policies.

The neoliberal macroeconomic and financial policy choices of the government have proved disastrous for investment and accumulation in the productive sectors of the economy. Their policy choices left them unable to deal with the effects of financialization and the corporate restructuring and deindustrialization crisis in the economy. These policy choices further integrated the economy into the global economy and opened the economy up to relatively uncontrolled hot money flows. The surges of hot money into and out of the economy led to volatility in macroeconomic variables such as exchange rates and interest rates and had a huge impact on liquidity in financial markets.

The integration into global financial markets increased the risk of financial crisis and the vulnerability to contagion from financial problems elsewhere. When these problems occurred, the large corporations and wealthy South Africans with their liquid and mobile capital were able to respond by moving their money abroad (see Chapter 6 on capital flight).

Poor South Africans were forced to bear the brunt of the poor economic policy choices of their government. Their prospects for employment declined, they lost their jobs or have had the quality of their jobs eroded through outsourcing and informalization. They have become more dependent on government grants, such as child support and old age pensions. Without adoption of alternative economic policies<sup>110</sup> to support

---

<sup>110</sup> Pollin et al (2006) provide a good outline of the policy interventions required by South Africa. A number of these require adjustment of the neoliberal macroeconomic policies of government.

employment and industrial growth and deepening, the majority of South Africans face an increasingly bleak economic future.

## BIBLIOGRAPHY

Aglietta, M. (1998), "Capitalism at the turn of the century: regulation theory and the challenge of social change", *New Left Review*, Issue 232, November-December: 41-90.

Amsden, A. (1989), *Asia's Next Giant: South Korea and Late Industrialization*, New York: Oxford University Press.

Anglo American plc (2010 – 2017), Annual Report, London

Ashman, S., B. Fine, & S. Newman, (2010), "The Crisis in South Africa: Neoliberalism, Financialization and Uneven and Combined Development". *Socialist Register*, 47.

Ashman, S., B. Fine, & S. Newman, (2012), "Systems of Accumulation and the Evolving MEC" in Fine, B., J. Saraswati and D. Tavasci (eds.), *Beyond the Developmental State: Industrial Policy into the 21st Century*, London: Pluto.

Ashman, S, S. Mohamed and S. Newman (2013), "The financialization of the South African economy and its impact on economic growth and employment," paper prepared for UNDESA Project: Strengthening National Capacities to Design and Implement Development Strategies for Inclusive, Equitable Growth and Sustainable Development Project.

Balkan E, Biçer, F.G. and A.E. Yeldan (2002), "Patterns of financial capital flows and accumulation in the post-1990 T economy". Paper prepared for presentation at the International Development Economics Associates session at METU International Conference on Economics, VI, Ankara, September, 2002.

Bell, J. S. Goga, Pamela M., S. Roberts (2018), "Structural transformation in South Africa: moving towards a smart, open economy for all," working paper of the Industrial Development Think Tank, University of Johannesburg

Berndt, Ernst R. (1991), *The practice of econometrics: Classical and contemporary*. Reading, Massachusetts: Addison-Wesley Publishing Company.

Bhaduri, A. and Marglin, S. (1990), "Profit Squeeze and Keynesian Theory" in Marglin, S. and J. Schor (eds), *The Golden Age of Capitalism. Reinterpreting the Postwar Experience*, Oxford: Clarendon.

Bhagwati, J. (1998). The Capital Myth: The Difference Between Trade in Widgets and Dollars. *Foreign Affairs*. Vol. 77, n. 3, pp. 7-12.

Bhorat, H., Hirsch, A. and Kanbur, R. (ed.s), *Oxford Companion of South African Economics*, Oxford: OUP.



Bond, S. and C. Meghir (1994), "Financial Constraints and Company Investment." *Fiscal Studies*, 15(2):1-18.

Bosiu, T, N. Nhundu, A. Paelo, M.O. Thosago and T. Vilakazi (2017), "Research Project on Large Firms and System for Regular Tracking of their Strategies and Decisions: Top 50 firms on the Johannesburg Stock Exchange (JSE)," Industrial Development Research Programme, Working Paper 17/2007, Center for Competition, Regulation and Economic Development, University of Johannesburg.

Bowles, S. and R. Boyer (1995), "Wages, aggregate demand, and employment in an open economy: an empirical investigation", in Epstein, G.A. and H.M. Gintis (eds.), *Macroeconomic Policy after the Conservative Era*. Cambridge: Cambridge University Press, 143-171.

Bowles, S., D. Gordon, and T. Weisskopf (1986), "Power and profits: The Social Structure of Accumulation and Profitability of the Post-war U.S. Economy", *Review of Radical Political Economics*, Spring/Summer.

Boyce, J. and L. Ndikumana (2001), 'Is Africa a net creditor? New estimates of capital flight from severely indebted Sub-Saharan African countries, 1970–96', *Journal of Development Studies*, 38 (2), 27–56.

Boyer, R. (2005), "How and why capitalisms differ", MPIfG Discussion Paper, 05 (4), Max Planck Institute for the Study of Societies.

Buchanan, J.M. (1980), "Rent-Seeking and Profit-Seeking", in J. Buchanan, R.D. Tollison and G. Tullock (eds.), *Towards a Theory of the Rent-Seeking Society*. College Station: Texas A&M University Press.

J. Buchanan, R.D. Tollison and G. Tullock (eds.), *Towards a Theory of the Rent-Seeking Society*. College Station: Texas A&M University Press.

Carmody, P. (2002), "Between Globalisation and (Post)Apartheid: The Political Economy of Restructuring in South Africa", *Journal of Southern African Studies*, Volume 28, Number 2, June, 2002.

Chandler, A. Jr. (1990), *Scale and Scope: The Dynamics of Industrial Capitalism*, Cambridge, MA: Harvard University Press

Chang, H-J. (2002), *Kicking Away the Ladder: Development Strategy in Historical Perspective*, London: Anthem Press.

Chang, H-J. (ed.) (2003), *Rethinking Development Economics*. London: Anthem Press.

Chenery, H.B. (1952), "Overcapacity and the acceleration principle", *Econometrica* 20(1): 1–28.

Chirinko, Robert S. (1993), "Business Fixed Investment Spending: Modeling Strategies, Empirical Results, and Policy Implications," *Journal of Economic Literature* 31(4): 1875-1911.

Clark M. J. (1923), *Studies in the Economics of Overhead Costs*, Chicago: University of Chicago Press.

Clark, P. K. (1979), "Investment in the 1970s: Theory, Performance, and Prediction," *Brooking Papers on Economic Activity*, 1:1979, 73-113.

Colpan, A. M., T. Hikino, J.R. Lincoln (eds) (2010), *The Oxford Handbook of Business Groups*, Oxford: OUP.

Commons, J.R. (1934a), *Institutional Economics: Its Place in Political Economy*, New York: Macmillan.

Competition Commission (2009), *Unleashing Rivalry: Ten years of enforcement by the South African competition authorities, 1999 – 2009*, Competition Commission and Competition Tribunal, Pretoria.

Crotty, J.R (1990), "Owner-Manager Conflict and Financial Theories of Investment Instability: A Critical Assessment of Keynes, Tobin, and Minsky," *Journal of Post Keynesian Economics*, 12(4), 519-542.

Crotty, J.R. (1993), "Neoclassical and Keynesian Approaches to the Theory of Investment," in Davidson, P. (ed), *Can The Free Market Pick Winners? What Determines Investment*, Armonk, N.Y. and London: Sharpe

Crotty, J.R. (1993b), "Rethinking Marxian Investment Theory: Keynes-Minsky Instability, Competitive Regime Shifts and Coerced Investment," *Review of Radical Political Economics*, Vol. 25(1): 1-26.

Crotty, J.R. (1994), "Are Keynesian Uncertainty and Macrotheory Compatible? Conventional Decision Making, Institutional Structures, and Conditional Stability in Keynesian Macromodels" in Dymski G. and R. Pollin, eds., *New perspectives in monetary macroeconomics: Explorations in the tradition of Hyman P. Minsky* (pp. 105-139), Ann Arbor: University of Michigan Press.

Crotty, J.R. (2002), "The Effects of Increased Product Market Competition and Changes in Financial Markets on the Performance of Nonfinancial Corporations in the Neoliberal Era", Political Economy Research Institute, Working Paper no. 44.

Crotty, J.R. (2003), "The Neoliberal Paradox: The Impact of Destructive Product Market Competition and Impatient Finance on Nonfinancial Corporations in the Neoliberal Era," *Review of Radical Political Economics*, 35(3): 271-279.

Crotty, J.R. and Goldstein, J. (1992), "The Investment Decision of the Post Keynesian Firm: A Suggested Microfoundation for Minsky's Instability Thesis," Levy Institute, Working Paper 79.

CSID (2010), "Submission of Comments Submitted in Response to the proposed Exchange Control Voluntary Disclosure Programme", submission to the South African Reserve Bank by the Corporate Strategy and Industrial Development Research Programme (CSID), University of the Witwatersrand, compiled by S. Ashman, S. Mohamed and S. Newman, 2 August 2010.

Davidson, P. (ed.) (1993), *Can The Free Market Pick Winners? What Determines Investment*, Armonk, N.Y. and London: Sharpe

Department of Trade and Industry (2002), "Accelerating Growth and Development: The Contribution of an Integrated Manufacturing Strategy" (A discussion document). Pretoria: DTI.

Diwan, I. (2001), *Debt as Sweat: Labor, Financial crises, and the Globalization of Capital*. World Bank Working Paper.

Dixit, A. and R. Pindyck (1994), *Investment under Uncertainty*, Princeton: Princeton Univ. Press.

Duménil, G. and Dominique L (2004), *Capital Resurgent*. Cambridge, MA: Harvard University Press.

Dymski G. and R. Pollin, (eds) (1994)., *New perspectives in monetary macroeconomics: Explorations in the tradition of Hyman P. Minsky* (pp. 105-139), Ann Arbor: University of Michigan Press.

Dumenil, G. and D. Levy (2001), "Costs and benefits of Neoliberalism: A Class Analysis," Review of International Political Economy, Vol. 8, no.4, 578-607.

Eichner, A.S. (1976), *Megacorp and Oligopoly: Micro Foundations of Macro Dynamics*. Cambridge: Cambridge University Press.

Eichner, A. S.(ed.) (1978), *A Guide to Post-Keynesian Economics*, White Plains, NY, M.E, Sharpe.

Elbadawi, I. and T. Hartzenberg (Eds), (2000), *Development Issues in South Africa*, New York: St Martin's Press.

Epstein, G.A. (ed) (2005), *Capital Flight and Capital Controls in Developing Countries*, Massachusetts: Edward Elgar Publishing.

- Epstein, G.A. (2005) "Introduction: Financialization and the World Economy", in Epstein, Gerald (ed.), *Financialization and the World Economy*, Northampton: Edward Elgar.
- Epstein, G.A. (ed.) (2005), *Financialization and the World Economy*, Northampton: Edward Elgar.
- Epstein, G.A. and H.M. Gintis (ed.s) (1995), *Macroeconomic Policy after the Conservative Era. Cambridge*. Cambridge: Cambridge University Press, 143-171.
- Epstein, G.A. and Hubbard, P. (2013), "Speculation and sovereign debt – an insidious interaction," in Wolfson, M., Epstein, G.A. (eds), *Handbook of the Political Economy of Financial Crisis*, Oxford: Oxford University Press, 326–356.
- Epstein, G.A. and A. Jayadev. 2005, "The Rise of Rentier Incomes in OECD Countries: Financialization, Central Bank Policy and Labor Solidarity", in G. Epstein, ed., *Financialization and the World Economy*. Northampton, MA: Edward Elgar Press pp. 46-74.
- Epstein, G.A. and D. Power (2003), "Rentier Incomes and Financial Crises: An Empirical Examination of Trends and Cycles in Some OECD Countries," *Canadian Journal of Development Studies*, 29 (2), 230-248.
- Ernst and Young (2006), *Mergers and Acquisitions: A Review of Activity for the Year 2005*, Ernst & Young South Africa (available online at <http://www.ey.com/ZA/en/Home>).
- Farrell, G.N. (2001). Capital Controls and the Volatility of South African Exchange Rates. South African Reserve Bank Occasional Paper No 15.
- Farrel, G.N. and Todani, K.R. (2004), "Capital flows, exchange control regulations and exchange rate policy: The South African experience". Background paper prepared for OECD seminar "How to reduce debt costs in Southern Africa?" Bond Exchange of South Africa, 25 and 26 March 2004.
- Fazzari S., G. Hubbard and B. Peterson (1988), "Financing Constraints and Corporate Investment." *Brookings Papers on Economic Activity*, 0(1): 41-195.
- Fedderke, J.W. (2004), "Investment in fixed capital stock: Testing the Impact of sectoral and systemic uncertainty", *Oxford Bulletin of Economics and Statistics*, 66(2), pp. 165-187.
- Fedderke, J.W., R.H.J. de Kadt, and J.M. Luiz (1998), "Indicators of political liberty, property rights, and political instability, 1935-97," Economic Research Southern Africa (ERSA) Working Paper. 4, University of the Witwatersrand, Johannesburg.

- Fielding, D. (1997), "Aggregate investment in South Africa: A model with implications for political freedom", *Oxford Bulletin of Economics and Statistics*, 59(3), pp. 349-369
- Fine, B. and Z. Rustomjee (1996), *The Political Economy of South Africa: From Minerals-Energy Complex to Industrialization*, Boulder, Co: Westview Press.
- Fine, B. (2009), 'A Rejoinder to 'A Response to Fine's "Harvard Group Shores Up Shoddy Governance"', *Transformation: Critical Perspectives on Southern Africa*, 69, pp. 66-79
- Fine, B. (2009b), "Neo-Liberalism in Retrospect?: It's Financialization, Stupid". Conference on "Developmental Politics in the Neo-Liberal Era", Center for Social Sciences, Seoul National Univ.
- Fine, B., J. Saraswati and D. Tavasci (eds.) (2012), *Beyond the Developmental State: Industrial Policy into the 21st Century*, London: Pluto.
- Frankel, J. and Andrew R. (1995). Currency Crashes in Emerging Markets: An Empirical Treatment. *Journal of International Economics*. Vol. 41, pp. 351-66.
- Friedman, M. (1968), "The Role of Monetary Policy". *The American Economic Review*, Vol. 58, No. 1: 1-17.
- Froud, J., J. Sukhdev, A. Leaver and K. Williams (2000), "Shareholder value and financialization: consultancy promises, management moves," *Economy and Society*, Vol. 29, No 1: 80-110.
- Froud, Julie, Colin Haslam, Johal Sukhdev and Karel Williams, (2001), "Financialization and the coupon pool," *Gestão & Produção* v.8, n.3, p. 271-288.
- Froud, Julie, Sukhdev Johal, Adam Leaver and Karel Williams, (2007), *Financialization and Strategy: Narrative and Numbers*. New York, NY: Routledge.
- Galbraith, John, (1967), *The New Industrial State*. New York: New American Library
- Gelb, S. (1991). 'South Africa's economic crisis: an overview.' In S. Gelb, ed. *South Africa's Economic Crisis*. Cape Town: David Philip. 1-32.
- Gezici, A. (2007), *Investment under financial liberalization: channels of liquidity and uncertainty*, Ph.D. Dissertation, University of Massachusetts. Amherst.
- Gilchrist, S. and C. Himmelberg (1998), "Investment, Fundamentals and Finance." *NBER Working Papers Series*, no: 6652.

- Goldstein, A.E., (2001), “Business governance in Brazil and South Africa: how much convergence to the Anglo-Saxon model?” Forthcoming in *Revista Brasileira de Economia Politica*
- Goldstein, J. and M. Hillard (eds) (2009), *Heterodox Macroeconomics: The Nexus of Marxian Competition, Impatient and Fragile Finance, Illiquid Investment, Crisis Theory and Fundamental Uncertainty*. London: Routledge
- Goldstein, A. (2010), “Business groups in South Africa” in by Colpan, A. M., T. Hikino, J.R. Lincoln (eds), *The Oxford Handbook of Business Groups*, Oxford: OUP.
- Goodwin R.M. (1948), “Secular and cyclical aspects of the multiplier and the accelerator”. In Metzler, L.A. (ed.), *Income, employment and public policy: Essays in honor of Alvin H Hansen*. New York: Norton.
- Government of South Africa (National Treasury) (1996), *Growth, Employment and Redistribution: A Macroeconomic Strategy*. Available at <http://www.treasury.gov.za/publications/other/gear/default.aspx>
- Grabel, I. (2001), “Averting crisis? Assessing Measures to Manage Financial Integration in Emerging Economies”, presented at the conference on “Financialization of the Global Economy” held by the Political Economy Research Institute (PERI) at the University of Massachusetts, Amherst, December 7-8, 2001.
- Grabel, I. (2003). International Private Capital Flows and Developing Countries. in H-J. Chang (ed.). *Rethinking Development Economics*. London: Anthem Press.
- Grabel, I. (2016), “Capital controls in a time of crisis”, Political Economy Research Institute (PERI), Working Paper 163, PERI, University of Massachusetts, Amherst.
- Grabel, I. (2017), *When Things Don't Fall Apart: Global Financial Governance and Developmental Finance in an Age of Productive Incoherence*, Cambridge: MIT Press.
- Grunfeld, Y. (1960), “The determinants of corporate investment” in Harberger, A.C. (ed.), *The Demand for Durable Goods*, Chicago: University of Chicago Press.
- Harberger, A.C. (ed.) (1960), *The Demand for Durable Goods*, Chicago: University of Chicago Press.
- Hausmann, R. and M. Andrews (2009), ‘Why We Still Believe Exports for Jobs Will Lead to Shared Growth: A Response to Fine’s “Harvard Group Shores up Shoddy Governance”’, *Transformation: Critical Perspectives on Southern Africa*, 69, pp. 31–65.
- Hausmann, R. (2008), “Final recommendations on the international panel on ASGISA,” Centre for International Development, Harvard University, Working Paper No. 161

Hein, E. and L. Vogel (2007), "Distribution and growth in France and Germany – single equation estimations and model simulations based on the Bhaduri/Marglin-model". Macroeconomic Policy Institute, WP 4/2007.

Hein, E. and L. Vogel (2008), "Distribution and growth reconsidered – empirical results for six OECD countries", *Cambridge Journal of Economics*, 32, 479-511

Heintz, J. (2002), "Capital accumulation and macro policy in South Africa: political instability, distributive conflict, and economic institutions", PERI Working Paper, No 29.

Heintz, J. (2002b), "Political conflict and the social structure of accumulation: The case of South African apartheid," *Review of Radical Political Economics*, 34, 319–326.

Helleiner E. (1994). *States and the Resurgence of Global Finance: From Bretton Woods to the 1990s*, Cornell University Press.

Hicks, J.R. (1937), "Mr. Keynes and the 'Classics': A Suggested Interpretation," *Econometrica*, 5(2): 147-159.

Hilferding, R. (1980 (1910)), *Finance Capital: A Study of the Late Phase of Capitalist Development* (translated by Watnick, M. and S. Gordon), Boston, MA: Routledge and Kegan Paul.

Hubbard, G., A. Kashyap and T. Whited (1992), "Internal Finance and Firm Investment," *Journal of Money Credit and Banking*, 27(4): 683-701.

Hudson, (2012), "The road to debt deflation, debt peonage, and neofeudalism", Working Paper No. 708. Levy Economics Institute of Bard College

Industrial Development Corporation (1990), "Modification of the Application of Protection Policy," Policy Document, IDC, Sandton.

Innes, D. (1984), *Anglo American and the rise of modern South Africa*, New York, NY: Monthly Review Press.

Isaacs, G. (2016), "Financialization and Development: South African Case Study, FESSUD, Working Paper Series, No 142, Financialization, Economy, Society & Sustainable Development (FESSUD) Project.

Joffe, A., Kaplan, D., Kaplinsky, R and Lewis, D. (1995), *Improving Manufacturing Performance in South Africa: The Report of the Industrial Strategy Project* (Cape Town: UCT Press).

Johnson, C. (1982), *MITI and the Japanese Miracle: The Growth of Industrial Policy, 1925-75*, Stanford: Stanford University Press.

- Jorgenson, D. (1963), "Capital Theory and Investment Behavior," *American Economic Review*, 53:247-59.
- Kaldor, N. (1970), "The new monetarism," *Lloyds Bank Review*, no.97.
- Kaldor, N (1978), *Further Essays on Economic Theory*, New York: Holmes and Meier.
- Kalecki, M. (1937), "The Principle of Increasing Risk," *Economica*, 4 (16), pp. 440-7.
- Kalecki, M. (1943), "Political aspects of full employment," reprinted in M. Kalecki, *Selected Essays on the Dynamics of the Capitalist Economy*, Cambridge: Cambridge University Press, 1971.
- Kalecki, M. (1954), *Theory of economic dynamics*, London: Allen & Unwin.
- Kalecki, M. (1971), *Selected Essays on the Dynamics of the Capitalist Economy 1933-1970*, Cambridge, UK: Cambridge University Press.
- Kaplan, D. (1990), *The Crossed Line: The South African Telecommunications Industry in Transition*, Cape Town: Struik.
- Kar, D. and D. Cartwright-Smith (2008), *Illicit Financial Flows from Developing Countries: 2002-2006*, Washington DC: Global Financial Integrity.
- Kar, D. and K. Curcio (2011), *Illicit Financial Flows from Developing Countries: 2000-2009. Update with a focus on Asia*. Washington DC: Global Financial Integrity.
- Karwowski, E. (2015), "The Finance-Mining Nexus in South Africa: How Mining Companies Use the South African Equity Market to Speculate," *Journal of Southern African Studies*, 41(1): 9-28.
- Karwowski, E. (2017), "Corporate financialization in South Africa: From investment strike to housing bubble," Post Keynesian Economics Study Group, Working Paper 1708.
- Keynes, J. M. (1936), *The General Theory of Employment, Interest and Money*, London: Macmillan.
- Khan, M. (2000), "Introduction" in Khan M. & K.S. Jomo (eds.), *Rents, Rent-Seeking and Economic Development: Theory and Evidence in Asia*, Cambridge: Cambridge University Press.
- Khan M. & K.S. Jomo (eds.) (2000), *Rents, Rent-Seeking and Economic Development: Theory and Evidence in Asia*, Cambridge: Cambridge University Press.



Kleu Report (1982), *Report on the Study Group on Industrial Development Strategy*, Pretoria: Government Printer.

Knight, F. H. (1921), *Risk, Uncertainty, and Profit*, Boston, MA: Hart, Schaffner & Marx; Houghton Mifflin Company

Kotz, D.M., T. McDonough and R. Reich, (1994), *Social Structures of Accumulation: The Political Economy of Growth and Crisis*, Cambridge: Cambridge University Press.

Kotz, D.M. (2017), “Social structure of accumulation theory, Marxist theory, and system transformation”, *Review of Radical Political Economy*, Vol. 49(4), p.p. 534–542.

Koyck, L.M. (1954), *Distributed lags and investment analysis, Volume 4*, Amsterdam: North-Holland Publishing Company.

Krippner, G. (2002), “What is Financialization?” Sociology Department, University of Wisconsin-Madison. (Available through [gkrippner@ssc.wisc.edu](mailto:gkrippner@ssc.wisc.edu)).

Krueger, A.O. (1974), “The Political Economy of the Rent Seeking Society”, *American Economic Review*, 64 (3).

Krugman, P. (1998). Open Letter to Mr. Mahathir, *Fortune*. September 28.

Kubicek R.V. (1979), *Economic imperialism in theory and practice: the case of South African gold mining finance 1886-1914*, Durham, N.C: Published for the Duke University Center for Commonwealth and Comparative Studies by Duke University Press Publisher.

Lapavistas, C. (2009), “Financialised Capitalism: Crisis and Financial Expropriation,” *Historical Materialism*, vol. 17, no 2: 114-48.

Lavoie, M. (1992), *Foundations of Post-Keynesian Economic Analysis*, Aldershot: Edward Elgar

Lavoie, M. (2006), *Introduction to Post-Keynesian Economics*. New York: Palgrave MacMillan

Lazonick, W. and M. O'Sullivan, (2000), “Maximizing shareholder value: a new ideology for corporate governance,” in *Economy and Society*, Volume 29, Issue 1 February 2000 , pp 13 – 35.

Lenin, V.I. (1960), *Imperialism – The Highest Stage of Capitalism*, Moscow: Progress Publishers.

Lewis, D. (1991), “The character and consequences of conglomeration in the South African economy”, in *Transformation*, Volume 16, 1991, pp29-48.

Lewis, D. (1995), "Markets, ownership and manufacturing performance" in Joffe, A., Kaplan, D., Kaplinsky, R and Lewis, D., *Improving Manufacturing Performance in South Africa: Report of the Industrial Strategy Project*, Cape Town: UCT Press.

Lewis, J.D. (2001), "Policies to promote growth and employment in South Africa," Discussion Paper 16, Informal Discussion Papers on aspects of the Economy of South Africa, World Bank Southern African Department.

Malkiel, B. (2003), "The Efficient Market Hypothesis and Its Critics," *The Journal of Economic Perspectives*, 17(1): 59-82.

Marais, H. (2011), *South Africa Pushed to the Limit: The Political Economy of Change*, New York: Zed Books.

Marglin, S. and J. Schor (eds) (1990), *The Golden Age of Capitalism. Reinterpreting the Postwar Experience*, Oxford: Clarendon.

Marx, K. (1977), *Capital: Volume I*, New York: Vintage Books.

McDonough, T., M. Reich, and D. M. Kotz, (eds.) (1994), *Contemporary capitalism and Its Crises: Social Structure of Accumulation Theory for the 21st Century*, Cambridge: Cambridge Univ. Press.

Metzler, L.A. (ed.) (1948), *Income, employment and public policy: Essays in honor of Alvin H Hansen*. New York: Norton.

Millberg, W. (2008), "Shifting sources and uses of profits: Sustaining US financialization with global value chains". *Economy and Society*, Volume 37 Number 3 August 2008: 420\_451

Minsky, H.P. (1975), *John Maynard Keynes*, New York: Columbia University Press.

Minsky, H. P. (1986), *Stabilizing an Unstable Economy*, New Haven: Yale University Press.

Mlambo, K and K. Nell (2000), "Public policy and private investment in South Africa: An empirical investigation", in Elbadawi, I and T Hartzenberg (Eds) (2000), *Development Issues in South Africa*, New York: St Martin's Press, pp.80-109.

Modigliani, F. and M. Miller (1958), "The cost of capital, corporation finance, and the theory of investment," *American Economic Review* 48: 261-297.

Mohamed, S. and K. Finnoff (2005), "Capital Flight from South Africa, 1980-2000" in Epstein, G. A. *Capital Flight and Capital Controls in Developing Countries*. Cheltenham: Edward Elgar Press.

- Mohamed, S and S. Roberts, (2007), “Questions of Growth, Questions of Development”, *New Agenda: South African Journal of Social and Economic Policy*, Issue 28
- Mohamed, S. (2010), The State of the South African Economy,” in Southall, R., D. Pillay, P. Naidoo and J. Daniel (eds), *New South African Review 1: Development or Decline*, Wits University Press, Johannesburg
- Mohamed, S. (2014), “Banking and Credit Markets”, in Bhorat, H., Hirsch, A. and Kanbur, R. (ed.s), *Oxford Companion of South African Economics*, Oxford: OUP.
- Mohamed, S. (2016), “Financialization of the South African economy,” *Development*, vol. 59, issue 1-2, p.p. 137-142.
- Moore, B.J. (1988), *Horizontalists and Verticalists: the Macroeconomics of Credit Money*. Cambridge: Cambridge University Press.
- Myers, S. (1984), “The Capital Structure Puzzle,” *Journal of Finance*, 39(July): 575-592.
- National Treasury of South Africa (2011), “A safer financial sector to serve South Africa better”. <http://www.oecd.org/dataoecd/21/13/48464023.pdf>
- Natras, N. and E. Ardington (Ed.s) (1990), *The Political Economy of South Africa*, University of Cape Town Press.
- Newman, S. (2014), "Financialization," FESSUD Studies in Financial Systems, study26, Financialization, Economy, Society & Sustainable Development (FESSUD) Project.
- Nitzan, J. and S. Bichler (2001), ‘Going Global: Differential Accumulation and the Great U-turn in South Africa and Israel’, *Review of Radical Political Economics*, 33, pp. 21-55.
- Nolan, P. (2003), “Industrial Policy in the early 21<sup>st</sup> century: The challenge of the global business revolution” in Chang, H-J. (ed.) (2003), *Rethinking Development Economics*. London: Anthem Press.
- Omar, R and E. Webster (2003), “Work restructuring in post-apartheid South Africa”, *Work and Occupations*, Vol. 30 No. 2, May 2003 194-213.
- O’ Meara, D. (1983), *Volkskapitalisme: Class, Capital and Ideology in the Development of Afrikaner Nationalism, 1934 – 1948*, Cambridge University Press.
- Onaran Ö. and G. Galanis (2013), "Income Distribution & Aggregate Demand: A Global Post-Keynesian Model". WP319, Political Economy Research Institute Univ. of Massachusetts, Amherst

- Orthofer, A. (2016), “Wealth inequality in South Africa: evidence from survey and tax data,” *REDI 3\*3 Working Paper 15*, Cape Town: SALDRU
- Ostry, J.D., A.R. Ghosh, K. Habermeier, M.C. Mahvash, S. Qureshi and D.B.S. Reinhardt. (2010), “Capital inflows: The role of controls”. International Monetary Fund Staff Position Paper SPN10/04.  
<http://www.imf.org/external/pubs/ft/spn/2010/spn1004.pdf>
- Palma, G. (2003a), “The Latin American Economies During the Second Half of the Twentieth Century – from the Age of ‘ISI’ to the Age of ‘The End of History’”, in H-J Chang (2003), *Rethinking Development Economics*, London: Anthem Press.
- Palma, G. (2003b). “The Three Routes to Financial Crisis: Chile, Mexico and Argentina [1]; Brazil [2]; and Korea, Malaysia and Thailand [3]”. in H-J. Chang (ed.). *Rethinking Development Economics*. London: Anthem Press.
- Palma, G.J. (2009), “The revenge of the market on rentiers: Why neo-liberal reports of the end of history turned out premature”. *Cambridge Journal of Economics*, 33, pp.829-869
- Palma, J. G. (2011), “Homogeneous Middles vs. Heterogeneous Tails, and the End of the “Inverted-U”: The Share of the Rich is What It’s All About,” *Development and Change*, 42(1), pp. 87–153.
- Pollin, R. (1991), “Two Theories of Money Supply Endogeneity: Some Empirical Evidence.” *Journal of Post Keynesian Economics*, 13(3): 391.
- Prasad, E., Rogoff K., Wei, S-J. and Kose, M.A. (2003). Effects of Financial Globalization on Developing Countries: Some Empirical Evidence”. International Monetary Fund.
- The Presidency, Government of South Africa (2003), *Towards a Ten Year Review: Synthesis Report on Implementation of Government Programmes*, Pretoria: Policy Co-ordination and Advisory Services, The Presidency GSA.
- Reinhart, C.M. and K.S. Rogoff (2009), *This Time is Different: Eight Centuries of Financial Folly*, Princeton, N.J.: Princeton University Press.
- Roberts, S. (2002), “Manufacturing competitiveness and industrial policy”, presented at Trade and Industrial Policy Strategies 2002 Annual Forum. Available at <http://www.tips.org.za/node/1151>
- Roberts, S, Chabane, N, Machaka, J., Molaba, N. and M. Taka (2003), “Ten year review: Industrial structure and competition policy”. Mimeo.
- Robinson, J. (1956), *The Accumulation of Capital*, London: Macmillan

- Robinson, J. (1962), *Essays in the Theory of Economic Growth*, London: Macmillan.
- Rodrik, D. (1998). Who Needs Capital-Account Convertibility? in *Should the IMF Pursue Capital-Account Convertibility*. Princeton Essays in International Finance. No. 207, 55-65.
- Rodrick, D. (1999), *The New Global Economy and Developing Countries: Making Openness Work*, Overseas Development Council, Policy Essay no. 24.
- Roux, A. (1991), "Financing economic development in South Africa", mimeo.
- Rustomjee, Z. (1990), "Regulating South Africa's corporate oligopoly," Unpublished MPhil dissertation, Institute of Development Studies, Sussex University.
- Samuelson, Paul A. (1955), *Economics (3rd ed.)*, McGraw-Hill.
- Sawyer, M. (1985), *The Economics of Michal Kalecki*, London: Macmillan.
- Sawyer, M. (2009), "The central core of heterodox macroeconomics" in Goldstein, J. and M. Hillard (eds), *Heterodox Macroeconomics: The Nexus of Marxian Competition, Impatient and Fragile Finance, Illiquid Investment, Crisis Theory and Fundamental Uncertainty*. London: Routledge
- Schularick, M. and A.M. Taylor (2012), "Credit Booms Gone Bust: Monetary Policy, Leverage Cycles, and Financial Crises, 1870-2008," *American Economic Review*, 102 (2): 1029-61.
- Shapiro, N. (1977), "The revolutionary character of post-Keynesian economics," *Journal of Economic Issues*, 11(3): 541-60.
- Shiller, R. (2000). *Irrational Exuberance*. Princeton: Princeton University Press.
- Shiller, R. (2003), "From Efficient Markets Theory to Behavioral Finance," *The Journal of Economic Perspectives*, 17(1): 83-104.
- Singleton, J. and Verhoef, G. (2010), "Regulation, deregulation and internationalization in South African and New Zealand Banking", *Business History, Taylor and Francis Journals*, 52(4), p.p. 536-563.
- South African Reserve Bank, Online Data ([www.resbank.co.za](http://www.resbank.co.za))
- Southall, R., D. Pillay, P. Naidoo and J. Daniel (eds) (2010), *New South African Review 1: Development or Decline*, Wits University Press, Johannesburg
- Staff of the Policy and Research Division of the Competition Commission (2008), "Input for the for the South African 15 Year Review", Competition Commission, Pretoria, South Africa

- Steindl, J. (1952), *Maturity and stagnation in American capitalism*, Oxford: Blackwell.
- Stiglitz, J. and A. Weiss (1981), "Credit Rationing in Markets with Imperfect Information." *American Economic Review*, 71, 912-927.
- Stiglitz, J. (2002), *Globalization and Its Discontents*, New York: W. W. Norton & Co.
- Stockhammer, E. (2004), "Financialization and the Slowdown of Accumulation," *Cambridge Journal of Economics*, 28: 719-741.
- Summa, J (1988), "Anglo-American Corporation: A pillar of apartheid", *Multinational Monitor* September, Vol. 9 No. 9.
- Summers, L. (1985), "Does the Stock Market Rationally Reflect Fundamental Values?" *The Journal of Finance*, 41(3): 591-601.
- Terreblanche, S. (2002), *A History of Inequality in South Africa: 1652 – 2002*, Pietermaritzburg: University of Natal Press.
- Tobin, J. (1969), "A General Equilibrium Approach to Monetary Theory," *Journal of Money, Credit, and Banking* 1(1): 15-29.
- Veblen, T. (1904), *The Theory of Business Enterprise*, New York: Charles Scribners. Reprinted (1975), New York: Augustus Kelley.
- Von Holdt, K. (2003), *Transition from below: Forging trade unionism and workplace change in South Africa*, Pietermaritzburg: University of Natal Press.
- Wade, R. (1990). *Governing the Market: Economic Theory and the Role of Government in East Asian Industrialisation*, Princeton: Princeton University Press.
- Wesso, G.R. (2001). "The dynamics of capital flows in South Africa: An Empirical Investigation" in South African Reserve Bank, *Quarterly Bulletin*, June 2001.
- Wesson, N. (2015), *An empirical model of choice between share repurchases and dividends for companies in selected JSE-listed sectors*, a dissertation presented for the degree of Doctor of Philosophy in Business Management and Administration, Stellenbosch University.
- Whited, T. (1992), "Debt, liquidity constraints and corporate investment: Evidence from panel data," *Journal of Finance*, 47(4): 1425-1460.
- Williamson, J. (1989), "What Washington Means by Policy Reform," in Williamson, J. (ed.), *Latin American Readjustment: How Much has Happened*, Washington: Institute for International Economics.

Williamson, J. (ed.) (1989), *Latin American Readjustment: How Much Has Happened*, Washington: Institute for International Economics.

Wolfson, M. and Epstein, G.A. (eds) (2013), *Handbook of the Political Economy of Financial Crisis*, Oxford: Oxford University Press.

Wood, E. and T. Moll (1994), 'Capital flight from South Africa: is underinvoicing exaggerated?', *The South African Journal of Economics*, 62 (1), 28–45.