Crisis of neo-liberalism and financialisation

Impact on South Africa

The *Labour Bulletin* has been carrying a series of articles by Ben Fine on the global economic recession. Here **Sam Ashman** situates South Africa in this economic crash.

The global economic meltdown that began in 2007 has been the most severe since the depression of the 1930s. It began, when poor Americans, many denied access to credit, defaulted on their 'sub-prime' mortgage repayments, sending fear about 'toxic' debt spreading internationally.

Global inter-bank lending dried up as a consequence, forcing monetary authorities and financial institutions to provide emergency loans to shore up institutions. Some, like the Northern Rock Building Society in Great Britain, were nationalised to prevent collapse. Others, like Fannie Mae and Freddie Mac and AIG were bailed out, while Lehman Brothers in the United States 'went to the wall'.

The collapse of Lehman Brothers in September 2008 in particular led to a wave of bankruptcies which produced broader economic collapse and the onset of a global recession, with sharply rising unemployment and falling output and trade. In Europe workers and their families are now paying the price of bailing out banks through huge budget cuts, seen most notably in the crisis in Greece.

The ideological shockwaves in Western economies were as great as the economic ones with talk of the collapse of neo-liberalism, the return of the state, return of Keynes and even, on occasion, the return of Marx. But much discussion and practice, in reality, has been around a revised neo-liberal or 'Post-Washington Consensus' approach to state intervention – that it is necessary to compensate for market and institutional 'failure', but nothing much more.

It is worth remembering that it was US state policy of keeping interest rates low which encouraged borrowers to invest in financial assets. This fuelled a series of asset-price bubbles, particularly the housing and stock-market bubbles of the late 1990s, and then the housing and credit-market bubble from the early 2000s on.

Asset prices soared, corporations and households increased their wealth on paper, and borrowed more and more. This funded investment and consumption in what might be called 'privatised Keynesianism' where private debt replaces public debt as the engine of growth.

Debt-driven consumption is also a feature of the South African economy. But the effects of the crisis have been different for developing economies. Some were forced to take loans from the International Monetary Fund as falling prices led to drops in export earnings.

Most importantly, collapsing demand for exports has led to big rises in unemployment. This is what happened in South Africa although it is true to say that South Africa was in crisis before the global recession.

This article follows from Ben Fine's three part series in *SALB 33.5, 34.1, 34.2* and situates South Africa's post-apartheid development in the 'big picture' of global neo-liberalism and financialisation.

NEO-LIBERALISM AND FINANCIALISATION

South African governments since the defeat of apartheid have shamelessly pursued neo-liberal policies. GEAR (Growth Employment and Redistribution) was a neo-liberal macro-economic framework, emphasising fiscal austerity, deficit reduction and pegging taxation and expenditure as fixed proportions of GDP.

The government's macro-economic priorities were the management of inflation, the deregulation of financial markets, tariff reduction, trade liberalisation and the limiting of government expenditure. With GEAR, South Africa 'liberalised from within' in opposition to, and at the expense of, economic and social reform.

This fits with the global picture. Neo-liberalism has meant a shift in the balance of economic and social power in favour of capital and away from labour. This has been achieved in developed economies through attacks on labour and trade unions, restructuring including privatisation, and attacks on welfare. The role of finance in this has been critical.

Financialisation as a term is associated with the huge growth of

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Germany's Angela Merkel in deep conversation at the EU summit on the Greek crisis – workers in Europe are now paying the price of bailing out banks through huge budget cuts.

financial markets, institutions and actors since the collapse of Bretton Woods in the early 1970s. Under this term is included the importance of institutional investors; the expansion of financial activities in the economy; the proliferation of financial services and instruments and a range of financial institutions and markets including the infamous sub-prime mortgages.

The growth of the financial sector is well documented. The value of financial assets in the US grew from four times GDP in 1980 to ten times GDP in 2007 and the ratio of global financial assets to global GDP has risen threefold from 1.5 to 4.5. Rising incomes from financial investment have led *Financial Times'* Martin Wolf to write in 2008, 'The US itself looks almost like a giant hedge fund. The profits of financial companies jumped from below 5% of total corporate profits, after tax, in 1982 to 41% in 2007.'

But financialisation is more than the proliferation of financial markets and assets. Critically, non-financial companies now gain an increasing share of profits from their financial activities. This is accompanied by the increasing financing of investment from earnings or borrowing on open markets. So car giant General Motors has a financial wing so large that it benefited from the US government's bailouts.

The spread of individual debt, in part to compensate for three decades of stagnant or falling wages, has become a critical way of maintaining demand. Consumption is increasingly based on credit, particularly through the use of housing as collateral. In the US, household debt was 48% of GDP in 1981, in 2007 it was 100%.

Rising debt combines with riches at the top. Income distribution in the US has returned to peak levels of 1929, with the top 1% of earners taking 23% of income share. There is also increasing debt of emerging or middle-income economies. And, critically, we see growth in the world economy led by speculation and speculative bubbles. In this way, financialisation is affecting the pace of accumulation.

Financialisation is marked by interconnected developments. In the neo-liberal period we see the expansion of speculative assets at the expense of investment for real activity. At the same time real accumulation, or big firms, have become part of interest-bearing capital. The result is systemic financialised accumulation.

This cannot be separated from economic and social restructuring through the state and privatisation, for example, which further spreads the role of financial assets. Financialisation places more and more aspects of economic and social life at risk of financial instability.

IN SOUTH AFRICA

The South African economy is highly skewed towards minerals and energy. This minerals-energy complex has shaped capitalist development since the 1880s, with extraction of minerals based on the exploitation of black labour, through the migrant labour system. This system has been reproduced in a different way since 1995 when South African capital 're-engaged' with the world economy.

The policies of GEAR were much the same as orthodox IMF stabilisation policies. The period of GEAR saw:

- overnight abolition of tariff barriers which decimated much labour-intensive manufacturing and increased unemployment;
- the lifting of capital and exchange controls, enabling conglomerates to relocate to the world's leading financial centres in order to tap into global equity markets, export capital and discipline state policy;
- corporate 'unbundling' in which diverse holdings and subsidiaries established during apartheid were broken up, sold-off where they were weak or amalgamated where considered to be internationally competitive. This reduced general conglomerate concentration but increased it within sectors;
- lack of domestic investment outside core sectors, reinforcing dependence on mining exports and the crisis nature of the rand in light of dependence on short-term capital inflows and acceptance of outflows;
- growth of the retail sector into black areas and also of services alongside casualisation and informalisation, though the informal sector remains small compared to other developing economies.

The result has been an enormous capital flight out of South Africa as corporations have internationalised and financialised their operations. This was aided by the state's relaxation of capital controls which contributed to a crisis in domestic investment. It is estimated that between 1994 and 2000 capital flight amounted to 9.2% of GDP per year.

This was combined with the increasing financialisation of the economy which produced growing private debt and increasing luxury consumption. This widened inequality as the majority are excluded from financial services and it made the lack of domestic investment worse. It also produced further concentration of industry on core, profitable sectors, reinforcing dependence on exports and lack of diversification.

William Matlala

The effect of the crisis in South Africa has been felt through falling global demand especially in mining and manufacturing as well as in a severe credit crunch.

EFFECTS OF CRISIS

In South Africa, financialisation has produced a combination of short-term inflows, accompanied by rising consumer debt in luxury items, *and* massive long-term outflows of capital as major 'domestic' corporations chose offshore listing, and to internationalise their operations and concentrate on core profitable sectors.

The result, even before the current crisis, was jobless growth, mass poverty for the majority and rising living standards for a minority of black elites. The effect of the crisis in South Africa, like many developing countries, has been felt primarily through falling global demand. This has hit mining and manufacturing but has also been accompanied by a steep fall in liquidity and a credit crunch characteristic of Western economies. This has intensified inequality with:

- The loss of about a million jobs during 2009. Unemployment rose by 475 000 in the first six months of 2009 and by 484 000 in the third quarter. Job losses levelled out in the fourth quarter. Many job losses were in semi-skilled sectors where, along with the unskilled, workers tend to live in households with many unemployed so the number of dependents on these incomes is higher.
- A fall in GDP of about 3% between the last quarter of 2008 and the second quarter of 2009.
- A fall in output in the mining sector of 33% in the final quarter of 2008, the biggest decrease on record.
- A 50% production cut in the car industry in January 2009, the worst ever recorded.
- A record 21.6% fall in manufacturing production at the start of 2009.
- Total manufacturing production declined by 4% in the fourth quarter of 2009 with the biggest sub-sectors hit hardest: auto, basic chemicals and fabricated metals. Manufacturing production at the start of 2010 remained below 2005 levels.
- A collapse in private sector credit extension from the third quarter of 2008 to mid 2009. It picked up subsequently but growth in credit extended to the private sector was at 1.5% in September 2009, the lowest rate for 43 years.
- Consumer spending shrank by 5% in the first half of 2009, its biggest contraction for 13 years, producing redundancies across retail.
- The value of exports fell by 24% in the first quarter of 2009, increasing pressure on the current account deficit, 7% of GDP.

SA government

Former minister of finance Trevor Manuel seems to have forgotten how hard he pushed for neo-liberal policies.

- A *recovery* in the value of the rand, by about 20% in 2009, as short-term capital flows resumed. South Africa saw an inflow of almost US$6-billion in the third quarter of 2009 as the major economies took measures to free up liquidity. Persistent overvaluation has made the rand the most traded emerging market currency and has blocked manufactured exports.

CONCLUSION

South Africa is now the most unequal society in the world. According to the government, the poorest 20% receive 1.6% of total income while the richest 20% receive 70%. According to the United Nation's Human Development Index of 'well-being', South Africa fell one place to 129th out of 182 – and this was before the impact of the global crisis. Record levels of poverty, inequality and HIV infection, are accompanied by high social protest, amongst the highest in the world.

The debate about the need for greater state intervention has been weaker in South Africa than in major industrial economies where the effects of the crisis have been sharpest. But the debate about whether and how South Africa can become a 'developmental state' reflects the widespread desire to move away from the neo-liberal model.

Trevor Manuel, formerly neo-liberal Minister of Finance, now heading the government's Planning Commission, seems to have forgotten his previous policies. Interestingly, however, his views about planning conform to the 'Post-Washington Consensus' view which recognises some weak state intervention to make up for market 'failure'. But despite changing its talk, much of government policy is business as usual while poverty and inequality deepens. Much more radical policy measures must be adopted in order to break South Africa's patterns of lack of development. LB

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