MONEY AND THE RESTRUCTURING OF THE SOUTH AFRICAN STATE

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of the South African State

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DECLARATION

I declare that this thesis is a novel and original work. None of the material used in this work has been used by the author for a prior thesis nor has It appeared in any published form.

SUMMARY OF THE THESIS

This thesis is concerned with understanding the changing dynamic in the relationship between the financial sector and the capitalist state. The thesis examines the changing form of this relationship in South Africa in the three decades that preceded the formation of the Government of National Unity in April 1994.

Arguing that the political, ideological and economic forms expressed by the state are the surface appearances of deeper social processes arising from the production and reproduction of capitalist social relations, the thesis attempts to show how the contradictory tendencies of capital accumulation in South Africa increasingly took the form of a monetary crisis. In responding to the crisis after 1976, the apartheid state sought to depoliticise economic relations by restructuring the monetary basis of the state. The thesis analyses the proposals of the De Kock Commission appointed to inquire into the monetary system and monetary policy and shows how class struggle conditioned the attempt by the state to restructure the financial system. While the state pursued a legislative programme to restructure the financial system, deepening economic and political pressures, made it difficult to pursue such a programme in isolation from the pressures to restructure the relations of power and domination embodied in the apartheid state. The thesis traces the development of this contradiction during the course of the 1980's and its resolution in the formation of the Government of National Unity in 1994. The restructuring of the state in the 1990's and the emergence of a new popular government has made it possible to take the process of financial restructuring further. This is because the institutional restructuring of the 'post-apartheid' state has been confined within the liberal state form. The liberal state form allows the subordination of the state and civil society to the abstract rule of money and law. The thesis examines the implications for social relations of the continuity in the apartheid and post-apartheid forms of restructuring of the administrative, legal, fiscal, monetary and financial aparatuses.

ABBREVIATIONS

AMIC	Anglo-American Industrial Corporation
ANC	African National Congress
COSATU	Congress of South African Trade Unions
FM	Financial Mail
FOSATU	Federation of South African Trade Unions
IDC	Industrial Development Corporation
MERG	Macro-economic Research Group
NACTU	National Confederation of Trade Unions
OAU	Organisation for African Unity
OGM	South African Reserve Bank. Ordinary General Meeting of Shareholders.
PAC	Pan-Africanist Congress
RDM	Rand Daily Mail
RDP	Reconstruction and Development Programme
ROCO	Register for Cooperation
SACP	South African Communist Party
SACTWU	South African Confederation of Textile Workers Union

INTRODUCTION:

Money and the restructuring of the South African state

The focus of this enquiry is the study of the relationship between the financial sector and the capitalist state and the changing forms of this relationship in South Africa in the three decades that preceded the formation of the Government of National Unity after South Africa's first democratic elections in April 1994. The study will attempt to outline the implications for social relations of the administrative and regulatory framework of the financial sector in a restructured South African state.

Adopting an approach which theorises the capitalist state as an institutional form of the `capital-relation', the form and function of the apartheid state is traced through the dynamic of the capital-relation, viz the relationship between capital and labour. The particular institutional forms of regulation and administration characteristic of the apartheid state has been developed within the framework of national and global forms of capital accumulation. The study will attempt to show that the contradictory tendencies of capital accumulation - which became increasingly manifested as a financial crisis - and which intensified the class struggle between capital and labour, necessited a strategic realignment by capital and the state. This realignment has been expressed institutionally in the restructuring of the apartheid state.

This thesis is concerned with understanding the social processes that underly the restructuring of the South African state from the late sixties to the early 1990's. Such a study is fundamental to an understanding of the social transformations which have occured over the last 2 to 3 decades and which is manifested in the changing form of the SA state. It is the contention of the thesis that the political, ideological and economic forms are the phenomenal forms of appearance of deeper social processes arising from the production and reproduction of capitalist social relations. This is a dynamic and contradictory social process in which the changing dynamic of the capital relation, i.e. the relationship between capital and labour, is fundamental and holds the key to a scientific understanding of the social form of the South African state. The unfolding of this process, both historically and logically, in the latter half of this century, has revealed the contradictory basis of capitalist production and the necessity, in attempting to overcome crisis, to constantly restructure the relations between capital, the working class and the state through changes in the social relations of production and the institutional form of the state. I want to show that the dynamic of these transformations manifests two counter-tendencies. On the one hand, the effort to restructure social relations in order to reassert the command of capital over labour, and on the other hand, labour's struggle to socialise production.

Theorising the capitalist state in this way has important implications for the analysis of the South African state. Most analyses of the South African state have emphasised the institutional and political-legal forms of domination which have characterised social relations in South Africa. In so doing, the starting point of analysis has tended to be the *apartheid form* of the state rather than the social determination of the *state form* as it has emerged historically in changing and specific conditions of class struggle. Emphasis is placed rather on the differential access to state power and economic resources resulting from the institutionalised separation of the population into legally regulated `racial' groups. This *politicist* (over-emphasis of the `political' and the separation of the `political' from other social forms without adequately theorising the relationships between the forms) analysis is characteristic of liberal, neo-liberal and neo-marxist analyses of the South African state.

The liberal view of the South African state sees the state primarily as a structure of racial domination within the political sphere. It is the institutional expression of an essentially irrational political order based on racial prejudice. In contrast, the economy, which is seen as outside the political sphere, is seen as rational, `colour-blind' and in conflict with the political system. The relationship between the state and the economy is one in which two tendencies are manifested: on the one hand,
"the South African economy of the 1960's has been decisively shaped, and perhaps determined...by an overpowering pursuit of ideas, or ideology...The polity has always sought its ideal and ideology - the White man's supremacy. The network of economic development had to follow accordingly" (Horwitz, 1967:10-11). "The white power structure is taken here to refer to the interlocking system of white dominated institutions whose actions, directly and indirectly, determine the access to power and available opportunities, and the distribution of resources" (Spro-cas Commission,

1972:33). On the other hand, however, so the liberal argument goes, the rational forces of the economy will in the long run assert themselves and subvert the racial structure and its intervention in the economy: "...South African capitalism has now reached the point at which social and political reforms are a pre-requisite for further growth within the capitalist mode of production, and moreover, that the South African state perceives this and proposes to change its strategies to ensure, as far as it is able, the perpetuation of capitalism rather than that of White supremacy" (J.Nattrass, 1981:28).

In rejecting the view that apartheid should simply be seen in terms of racial oppression arising from the racist ideology of the South African ruling class, the neo-marxists, argue that "an understanding of race relations must be rooted in a conception of the specific relations of production of South African capitalism"(O'Meara, 1982:363). Neo-marxism saw the state as an instrument of class rule, used to maintain and develop the capitalist mode of production and the distribution of the surplus between the various class fractions. From this neo-marxism draws the conclusion that apartheid represents the hegemony of a particular fraction of the dominant class engaged in struggle with other fractions within the power bloc. Apartheid represents the victory of `national' capital (agriculture and manufacture) over `imperialist' capital (mining): "State power is a unity, requiring organisational direction to be effective. Thus there is always a struggle within the power bloc to assume this organisational role, and thereby ensure the primacy of this class/fraction's particular interests"(Davis *et al*,1976:5 cited in Wolpe, 1989).

The neo-liberal approach responds to some of the neo-marxist criticism of the liberal analyses and presents a subtler argument but continues to theorise the economic and the political separately and independently, ditching the idea of a conflict between irrational (political) and rational (economic) in favour of a version of the fractionalist approach to theorising the apartheid state: "Until recently, much of the argument about South Africa has been couched in terms of whether economic forces, usually described as `rational' , would prevail over `irrational' political and ideological forces such as race prejudice and Afrikaner nationalism. However, the issue is now widely perceived as being a political struggle between different sets of economic interests, rather than a battle between archaic political and progressive economic forces" (Lipton, 1986:5).

All these approaches have in common a theoretical perspective that takes for granted a separation of political from economic relations. To varying degrees these approaches are permeated by a structural-functionalist model of social reality which either emphasises the political in its analysis of the apartheid state or reduce all to an economistic explanation. The liberals treat the apartheid state in purely political terms and separate it from the economy, while the neo-marxists relying on this separation, only bring them together in a reductionist manner, characterising the state immediately i.e without mediation, with the interests of capital. Liberal, neo-liberal and neo-marxist analyses has not been able to adequately conceptualise the South African state in all its complexity showing the complementarity of political and economic forms and their inter-connections with the underlying social relations forged by capitalism.

An alternative perspective, and the one adopted in this thesis, relies on a methodological approach which conceptualises social processes as the product of historically determined conditions which embrace a "rich totality of many determinations and relations" (Marx,1981:100).

Following this approach, the starting point is to analyse what appear to be the central concrete social phenomena and to `de-construct' them into the simplest determinations. Using these simple determinations, one can attempt to build up, logically and historically,a conception of social processes in all their totality in order to approximate the many determinations and relations that make up concrete social phenomena.

"The concrete is concrete because it is the concentration of many determinations" (Marx, 1981:101).

The objective of this thesis therefore is to study the social determinations and interconnections between money capital and the South African state. These are complex social forms, which in a society of generalised commodity production presupposes the commodity form and the social relations embodied by and arising from this social form. The increasingly complex determinations of the money form, law and the state are forms assumed by the capital relation arising from the commodity form.

Starting with the analysis of the commodity form, Chapter One examines the relationship between the commodity form and money and the implication of this relationship for the social determination of the capitalist state.

Chapter Two examines the implications of this analysis of the capitalist state for the theorisation of the South African state. Left analysis of the South African state has relied predominantly on the neo-marxist theorisation of the capitalist state derived from Althusser and Poulantzas. In its analysis of the apartheid state's response to crisis, in the 1970's and 1980's, a similar reliance was placed on Aglietta's `regulation theory' for its analysis of the apartheid state's reform strategies. Neo-marxism emphasises the separation of the `economic' from the `political' in its analyses. It has played an important role in the formulation of the economic policy of the ANC. Showing the inadequacies of this approach the chapter argues for a different interpretation of the apartheid state's reform strategies based on an approach that analyses the political and the economic as different forms of the same social process. What is important is how the power of capital and the power of the state is mediated through the social power of money.

In Chapter Three, I begin an exploration of the historical development of South African capitalism and the conditions shaping the contradictions and crisis of capital accumulation. Using as a starting point the economic boom of the 1960's and the reasons for its demise, I analyse the structural imbalance in the domestic economy which derives from the predominance of primary production. The expansion of manufacturing in the sixties did not eliminate the trade-dependent character of the domestic economy nor did it steer South Africa significantly away from its role in the world economy as a primary producer. Rather, the expansion of manufacturing created other counter-tendencies. It intensified the class struggle between capital and labour at the point of production and between the state and the rapidly rising reserve army of labour displaced by the introduction of modern technology and the restructuring of the labour process. The contradictions of capital accumulation became increasingly expressed in the form of a monetary crisis. In responding to the crisis the state sought to address its monetary form.

Chapter Four analyses the monetary form of the crisis within the domestic and international context and the effect of class struggle on the ability of the apartheid state to respond to this crisis. As the boom reached its limits in the early seventies, so growing economic pressures led to rising inflation, deficits in the balance of payments and a growing shortage of skilled labour. These economic pressures cannot be understood in isolation from more fundamental social processes. Furthermore the structural imbalances in the domestic economy reflected the limited and dependent character of manufacturing as well as the vulnerability of the economy to the international money and capital markets. These structural features which precipitated the seventies recession was exacerbated by the 1973/4 crisis in the world economy and the mass uprisings of 1976.

The impact of the mass uprising of 1976 on capital and the state is explored in Chapter Five. Internal political and industrial conflict, fuelled by domestic and global recessionary conditions, set the crisis facing the apartheid state to a new level. While working class pressure for economic and political reform intensified, state and capital were pinning their hopes on resolving the political crisis through economic growth by restructuring manufacturing. This was the basis of state and capital's reform agenda. The condition for restructuring manufacturing however was the modernisation of the administrative and regulatory systems that coordinate economic activity and make possible an efficient labour market. The first comprehensive set of reforms introduced by the apartheid state made possible the creation of an industrial relations system that extended trade union rights to black workers and eased restrictions on their movement. Restructuring manufacturing also impacts on South Africa's relationship to the world economy. Continual financial crises, including capital flight, chronic balance of payments deficits and instability in the domestic banking system, necessitated reform of the financial system.

Chapter Six assesses the Interim Report of the De Kock Commission of Inquiry into the monetary system and monetary policy, published in 1978. By restructuring the financial system and introducing monetary reforms, it was hoped that pressure on the domestic economy and the foreign exchanges would be reduced by facilitating integration with the world economy. Internally, the Commission's task was to formulate strategy for the depoliticisation of economic relations. The rapid unfolding of political and economic developments, however, forced the Commission to respond to the immediate pressures arising from the foreign exchange markets. The efforts to restructure the financial system continued to be constrained by the need to respond to immediate pressures. As a result, restructuring at this time remained largely pragmatic and the process of strategic restructuring of the financial system had to charter a more difficult course the outcome of which could not be pre-determined as it was conditioned by the changing dynamic of class struggle.

Chapters Seven and Eight explores the issues arising from the tendencies and counter-tendencies which shaped the transformations of the financial sector from 1986 to 1992. Chapter Seven assesses the significance of the Second Interim and Final Reports of the De Kock Commission. Chapter Eight explores financial restructuring in the context of the restructuring of the form of the South African state.

Chapter Nine analyses the financial and banking strategies of the Government of National Unity and their relationship to the reconstruction and development objectives of the state.

CHAPTER ONE

Money capital and the determination of the capitalist state

The commodity form and money

The expenditure of labour and its appropriation by capital is the foundation upon which alienated labour exists in capitalist society. Capitalist private property is a particular form of alienated labour in which the products of labour are appropriated by private owners. The commodity form and the process of commodity exchange rests upon alienated labour. In demonstrating that the labour theory of value in political economy presupposes alienated labour and the existence of particular social forms in a particular society, Marx concluded that the theory of value of political economy and the economic categories assumed by it are socially determined and the product of a specific form of society. Value arises from alienated labour in which social production is regulated through the production and exchange of commodities.

Commodities, although products of the individual producer, do not serve immediately the use-value needs of the direct producers. Human needs are satisfied indirectly. For the capitalist, the use-value of the commodity rests upon its ability within a commodity-producing society to be exchanged as a value. Needs are satisfied indirectly, through the alienated form of the production of values. Consequently, "The exchange of commodities as values is correspondingly a specific social form of the regulation of the division of labour in society and the value of the commodity expresses the social relations between producers within that division of labour"(Clarke,1983;67-8).

As a consequence of the way commodities are produced and the way their value are realised only by exchange, the social determination of their value is not immediately apparent and therefore appears to arise from some inherent property within the commodity. This illusionary power of commodities is the basis for the fetishisation of commodities and the propensity for political economy to naturalise capitalist social relations and view these purely abstractly, as relations between abstract `private' individuals whereas, in reality, "The individual act of production and appropriation ...presupposes a social division of labour expressed in the total process of production and exchange of commodities"(Clarke, 1983:71). Private property is itself a form of the social relations of commodity production. The owner of private property is concerned primarily with the value embodied in commodities rather than with its physical properties. The value embodied in commodities is created during the course of the *labour process* in which the activities of various concrete labours combine in production. In a society with generalised commodity production, the labourers engaged in commodity production are alienated from the products they create despite the fact that their labours have created value. That is to say, that the commodities produced by workers, the direct producers, are not intended for the immediate satisfaction of their needs. Rather, they satisfy the immediate needs of the class of capitalists who are able, through the circulation and exchange of commodities to realise and accumulate the value that they had appropriated from the direct producers. For the capitalists, commodity production is only meaningful for the potential that value can be realised in the exchange process.

What follows from this is that different forms of property express different forms of social relation. In the historical development of commodity production new social relations and consequently new forms of property come into being. The process of commodity exchange for example gave rise to the *money form* - a special commodity acting as a unit of value in exchange.

Money as a social relation

The money form emerges with the development of generalised commodity production, in which commodities are exchanged to realise their value. Commodities acquire their value through the various concrete labours engaged in producing commodities, acquiring a social form in which concrete labours are abstracted and homogenised thus reducing the value of all commodities produced in society to a measure of abstract labour in which value is measured by the amount of *socially-necessary labour-time* required for its production: "Socially necessary labour-time is the labour-time required to produce any use-value under the conditions of production normal for a given society and with the average degree of skill and intensity of labour prevalent in that society"(Marx,1979:129). Consequently, "Regarded as exchange-values all commodities are merely definite quantities of *congealed labour-time*" (Marx,1981:30).

The homogenisation of labour has important implications for exchange-value and the emergence of the money form. With labour abstracted and equalised "Every commodity considered as exchange-value becomes a measure of the value of all other commodities."(Marx,1981;46) In exchange, the product of specific individual concrete labour is realised as the product of social labour. In order to express concretely the exchange-value of a particular commodity or group of commodities, commodities as `materialised universal labour-time', find, in the exchange process, a commodity - a `universal equivalent'. The commodity set aside in this way acquires a universal use-value (that of being the bearer of exchange-value) in addition to its own particular use-value as a commodity. This use-value "is itself a determinate form, i.e., it arises from the specific role which this commodity plays as a result of the universal action exerted on it by the other commodities in the exchange process." (Marx,1981;47)

The contradictory determinations of the money-form

Money is the commodity universally recognised in the exchange process as representing the exchange-value of commodities. The emergence of money presupposes a developed division of labour, particular production relations and relations of exchange in society: "The exchange of commodities is the process in which the social metabolism...simultaneously gives rise to definite social relations of production, into which individuals enter in the course of this metabolism. As they develop, the interrelations of commodities crystallise into distinct aspects of the universal equivalent, and thus the exchange process becomes at the same time the process of formation of money. This process as a whole, which comprises several processes, constitutes *circulation* (Marx,1981:51-2). Circulation is the social process by which commodities change their form, oscillating between the commodity-form and the money-form, as it is sold and bought by commodity-owners and money-owners. Each circuit completed by one commodity is inextricably link to the circuits of other commodities. The circulation of commodities in its simplest circuit, C-M-C, requires two contradictory social processes: the commodity-owner parting with commodities, becomes a *seller*; purchasing commodities requires a *buyer*. "While the same commodity is successively passing through the two inverted transmutations, from a commodity into money and from money into another commodity, the owner of the commodity successively changes his role from seller to buyer. Being a seller and being a buyer are therefore not fixed roles, but constantly attach themselves to different persons in the course of the circulation of commodities"(Marx,1979:206). In each circuit the commodity is subject to contradictory determinations: at one moment it is a `non-use-value' to its owner; at another moment, it is a use-value. The same holds true for money: it changes from money as crystallised value to the equivalent form of the commodity.

Marx shows how this process of the circulation of commodities in society has immediate social significance in the transformation of human labour as a social process. The circulation of commodities (the product of human labour) develop a network of social connections `*beyond the control of the human agents*' (Marx, 1979:207, emphasis added). At any moment in the circulation, whenever a commodity leaves the circuit, it leaves behind a `precipitate' in the form of money; `*Circulation sweats money from every pore*' (Marx,1979:208, emphasis added). This has important implications for the reproduction of the circulation process. The circulation of a commodity is useless if it cannot be sold by its owner, in other words, if it is not bought by the owner of money. While no commodity can be sold without a purchase, there is no direct compulsion for the seller to purchase. The sale and purchase, occuring simultaneously, while it may be a partial process considering circulation as a whole, `is at the same time an independent process in itself'. But although independent, the two processes also complement each other. Herein lies a contradiction in the circulation process, the origins of which stem from the contradictory determinations of the commodity form itself: "These two processes lack internal independence because they complement each other. Hence if the assertion of their external independence proceeds to a certain critical point, their unity makes itself violently felt by producing - a crisis.There is an antithesis, immanent in the commodity, between use-value and value, between private labour which must simultaneously manifest itself as directly social labour, and a particular concrete kind of labour which simultaneously counts as merely abstract universal labour, between the conversion of things into persons and the conversion of persons into things; *the antithetical phases of the metamorphosis of the commodity are the developed forms of motion of this immanent contradiction*"(Marx, 1979:209, emphasis added).

The determination of the contradictions of capitalist society and its propensity to crisis exist in the circulation of commodities which in turn mirrors the contradictory determinations of the commodity form. In the circulation of commodities we see also the social power of money. As a result of the circulation of commodities, the transformation of commodities to money in the circuit "appears not to have been mediated by its (the commodities')own change of form, but rather by the function of money as means of circulation...Hence although the movement of money is merely the expression of the circulation of commodities, the situation appears to be the reverse of this, namely the circulation of commodities seems to be the result of the movement of money" (Marx,1979:211-2).

The determination of monetary crisis

With the development of circulation, circumstances make possible the elapse of time before the alienation of a commodity is realised in its price. In this case, the seller turns creditor and the buyer, debtor. In this situation money becomes the `means of payment'. The seller sells a commodity to a buyer who buys as a `representative of money' (future money). In this case "The means of payment enters circulation, but only after the commodity has already left it. *The money no longer mediates the process*. It brings it to an end by emerging independently, as the absolute form of existence of exchange-value, in other words the universal commodity. The seller turned his commodity into money in order to satisfy some need; the hoarder in order to preserve the monetary form of his commodity, and the indebted purchaser in order to be able to pay" (Marx, 1979:234 emphasis added). The seller's commodity enters circulation and realizes its price only in the form of a legal title to money. (This pre-supposes the prior existence of a social connection - a social relationship existing independently but arising within and existing through the circulation process.) With the historical development of this process on an extended scale, institutions arose (clearing-houses) to centralise means of payments. When payments balance each other money serves a nominal function as money of account - as a measure of value. However the contradictory basis of money functioning as means of payment arises when actual payment is made. At this point money does not serve the function as a means of circulation, but as the independent embodiment of the value of social labour. This contradiction is the basis of a monetary crisis when the mechanism is disturbed. Then "money suddenly and immediately changes over from its merely nominal shape, money of account, into hard cash....The use-value of commodities become valueless, and their value vanishes in the face of their own form of value....In crisis, the antithesis between commodities and their value-form, money, is raised to the level of an absolute contradiction"(Marx,1979:236).

The circuit of capital and the power of money

The process of the circulation of commodities is the historical basis for the emergence of capital. Money, an economic form produced by this process is the initial form of appearance of capital. Alongside the direct form of the circulation of commodities, C-M-C, we find another form, M-C-M'. The basis for the transformation of money into capital. Selling in order to buy (the first circuit) ultimately end in consumption - the satisfaction of a need. In the second circuit however, buying in order to sell, the circuit begins and ends with money (exchange-value). The objective of the process is to augment the value initially advanced. The process of valorizing the initial value, converts it into *capital* which makes possible the renewal of the circuit.

The possibility of limitless movement of capital in this circuit has important social implications:
On the one hand, "As the conscious bearer of this movement, the possessor of money becomes a capitalist...the valorization of value - is his subjective purpose, and it is only in so far as the appropriation of ever more wealth in the abstract is the sole driving force behind his operations that he functions as a capitalist"(Marx, 1979:254). On the other hand, "Value therefore now becomes value in process, money in process, and, as such, capital"(Ibid:256). This circuit is the basic formula for capital in the sphere of circulation, not only for money-capital but also for industrial and interest-bearing capital. But, Marx shows that surplus-value does not arise simply from the circulation process but happens with the appropriation by capitalist of the surplus-value derived from the labour-process. The consumption in the production process of labour-power by the capitalist is the basis of value in capitalist society. All three circuits of capital, money, productive and commodity capital, form a unity that makes possible the reproduction and the transformation of capital:
"As a whole, then, the capital is simultaneously present, and spatially co-existent, in its various phases. But each part is constantly passing from one

phase or functional form into another, and thus functions in all of them in turn. The forms are therefore fluid forms and their simultaneity is mediated by their succession....The total social capital always possesses this continuity and its process always contains the unity of the three circuits" (Marx,178:184).

The credit-system and interest-bearing capital

The growth of credit money arises from the function of money as a means of payment. As the credit system expands, so does the use of money as means of payment."When the production of commodities has attained a certain level and extent, the function of money as means of payment begins to spread out beyond the sphere of circulation of commodities. It becomes the universal material of contracts" (Marx,1979:238). The power of money in the circulation process reinforces and is reinforced by legal and political forms institutionalised in the law and enforced by the state. The process of fetishisation is taken further in interest-bearing capital. In the form of interest-bearing capital, M-M', capital appears immediately in its money form unmediated by the production and circulation processes. The accumulation of money capital in the form of loan capital is another feature of the credit system in which the concentration of money-lending in banking institutions enables `the accumulation of loanable capital, as a form separate from genuine capital' (Marx,1981:634). The credit system makes possible the allocation and coordination of money capital enhancing the social power of money and in this way increasing the power of capital over society: "When concentrated in the hands of the capitalists...money therefore comes to express the power of capitalist property *outside of* and *external to* any specific process of commodity production. Money capital, when mobilized through the credit system, can operate as *the common capital of the capitalist class*" (Marx, cited in Harvey,1982:284).

Marx himself did not develop the analysis of credit. This task was taken up by Rudolf Hilferding. He studied the theorisation of the credit system and its relationship to the capitalist state.[1] Hilferding's contribution is to conceptualise the process of concentration and centralisation developing within capitalism out of which cartels and trusts emerged, and which brought bank and industrial capital into a closer relationship. Drawing from Marx's analyses of industrial, commercial and bank capital, he argues that the functions the banks perform in respect of money, credit and fictitious (equity) capital form the basis of banking capital's power over industrial capital. Capital credit (bank lending), possible through the transfer by

[1] Rudolf Hilferding, *Finance Capital: a study of the latest phase of capitalist development*, RKP, 1981.

banks of money capital between capitalists, reinforced this power of the banks. So do `promoters' profits', paid to banks for their role in raising equity.

Hilferding sees the concentration of banking as a consequence of the development of capitalist industry. The former, in turn, provides the impetus for capitalist concentration in cartels and trusts. This interrelationship has important consequence: " From the outset the effect of advanced cartelisation is that the banks also amalgamate and expand in order not to become dependent upon the cartel or trust. In this way cartelization itself requires the amalgamation of the banks, and conversely, amalgamation of the banks requires cartelization"(Hilferding,1981:223).

The formation of cartels presupposes the existence of banks large enough to provide the credits required for current payments and productive investment. But the cartel provides a further impetus for closer industry-bank relationship. Cartelisation within an industry tends towards the elimination of competition. The resultant increase in the rate of profit increases the capital available for `promoter's profit'. "Cartelization also means greater security and uniformity in the earnings of the cartelized enterpries. The dangers of competition...are eliminated and this leads to an increase in the share price of these enterprises, which involves further promoter's profit when new shares are issued. Furthermore the security of the capital invested in these enterprises is significantly increased. This permits a further expansion of industrial credit by the banks, which can then acquire a larger share in industrial profits. As a result of cartelization, therefore, the relations between the banks and industry become still closer, and at the same time the banks acquire an increasing control over the capital invested in industry" (Hilferding, 1981:224).

The traditional sources of money for the banks were usually derived from the resouces of the non-productive class and the capital reserve of industrial and commercial capitalists. Over time the development of credit enabled industry to tap both sources for its productive needs. Hilferding observed that the industrial capitalists were employing resources far in excess of those owned by the industrial capitalists themselves, viz. from the non-productive classes. "The control of these funds which are indispensible to industry, rests with the banks, and consequently, with the development of capitalism and the machinery of credit, the dependence of industry upon the banks increases"(Ibid:224). The banks are able to attract such funds through the payment of interest.

With the increase of available funds, its employment in speculation and commerce began to decline in favour of transformation into industrial capital. For, "Without the continuous expansion of credit for production, the availability of funds for deposit would have declined long ago, as would the rate of interest on bank deposits"(Ibid:224). "The dependence of industry on the banks is therefore a consequence of property relationships. An ever-increasing part of the capital of industry does not belong to the industrialists who use it. They are able to dispose over capital only through the banks, which represent the owners. On the other side, the banks have to invest an ever-increasing part of their capital in industry, and in this way they become to a greater and greater extent industrial capitalists. I call bank capital, that is, capital in money form which is actually transformed in this way into industrial capital, finance capital. So far as its owners are concerned, it always retains the money form; it is invested by them in the form of money capital, interest-bearing capital, and can always be withdrawn by them as money capital. But in reality the greater part of the capital so invested with the banks is transformed into industrial, productive capital (means of production and labour power) and is invested in the productive process. An ever-increasing proportion of the capital used in industry is finance capital, capital at the disposition of the banks which is used by the industrialists" (Ibid:225).Hilferding saw finance capital reaching its peak with the emergence of monopoly capitalism. With increasing concentration of capital, "the owners of the fictitious capital which gives power over the banks, and the owners of the capital which gives power over industry, becomes increasingly the same people...As capital ...becomes finance capital, so the magnate of capital, the finance capitalist, increasingly concentrates his control over the whole national capital by means of his domination of bank capital" (Ibid:225).

Finance capital set new conditions that transform the form and character of the capitalist state. "Cartelization, by unifying economic power, increases its political effectiveness. At the same time it coordinates the political interests of capital and enables the whole weight of economic power to be exerted directly on the state. By uniting all capitalist interests it confronts the state as a far more cohesive body than was the fragmented industrial capital of the era of free competition"(Ibid:338). In order to maintain its interests, finance capital "needs a politically powerful state which does not have to take account of the conflicting interests of other states in its commercial policy. It needs also a strong state which will ensure respect for the interests of finance capital abroad, and use its political power to extort advantageous supply contracts and trade agreements from smaller states; a state which can intervene in every corner of the globe and transform the whole world into a sphere of investment for its own finance capital" (Ibid:334) "Finance capital, in its maturity, is the highest stage of the concentration of economic and political power in the hands of the capitalist oligarchy" (Ibid:370).

Hilferding fails to ground his analysis of `finance capital' in production and take account of the fact that bank capital ultimately depends on productive capital for its profits. As de Brunhoff(1976:54) explains, "the form of production takes precedence over the form of exchange, and that of capital over that of money. But the monetary relation `immanent' in the capitalist relation preserves its nature and its specific role. Capital must return to a monetary form for the initial exchange M-C to be able to take place and reproduce itself." Financial capital as money-capital provides the financing of capitalist operations and remains a part of total capital. Its function, "consists exclusively in performing these operations for the entire class of industrial, and commercial capitalists" (Marx, cited by De Brunhoff,1976:75). Hilferding's concept of finance capital, according to de Brunhoff, "confuses centralisation and control of capital with mastery over financial circulation. This latter...is necesarily bound up with monetary circulation as a whole, as is credit with means of payment. It is therefore valuable to distinguish between..capitalist commodity circulation, [on the one hand] and that of finance capital [on the other] - before discussing the strategic position of the banking system at the interface of the two" (de Brunhoff,1978:55-6).

Both elements are incorporated in bank capital and their development inter-connect. Interest-bearing capital, being loaned to industry, is directly linked to productive capital in which it finds its limits. Fictitious capital overcomes this limitation. Laurence Harris defines it as, "financial assets created by the capitalisation of an income stream where the asset does not have a counterpart in an equivalent sum of productive capital" (Harris, 1988:21).

Bank loans to states and bonds (issued by sovereign state) are both forms of fictitious capital. The importance of this for Harris is that the "state, does not, on the whole, use them to finance the production of commodities for profit (although of course, the state's spending can indirectly support the profits of some sectors of private industry); the corollory is that the interest banks can receive on such bonds is not paid directly from the uncertain profits of productive enterprise. Instead the interest paid by the state to its creditors is ultimately financed by the state's powers of taxation"(Ibid:22). The banks' ownership of this capital is therefore separated from the changing fortunes of industrial capital. Banks therefore enjoy a high degree of independence from production. To Marx, however, this remains illusory for banking profits as a whole are dependent on the production of surplus value(Ibid:22). According to Marx, "ultimately industrial capital is seen as determining what happens to finance capital, but each is a distinct and separate form of capital"(Ibid:24). To Harris, there appears to be a contradiction between finance capital and the concept of fictitious capital: "While the latter is...characterised by its relative independence from productive capital, finance-capital appears completely tied... For Marx, the tendency of finance was to become increasingly abstract and free rather than specific and tied, whereas finance capital appears to be quite the opposite" (Ibid:25). With the internationalised financial system, Harris believes, contra Hilferding, that "the tendency to dissociate bank's operations from industry's is the rule and their direct linking is the exception" (Ibid:28). Harris, however, adds a rider: "as bankers have found in the 1980's the problem is that even fictitious capital cannot avoid its ultimate dependence on the productivity of industry; when the accumulation of productive capital is dislocated even state debt is risky, and bank's capital can indeed become immobilized by the crisis at times" (Ibid:30).

The constitution of the capitalist state

The state in capitalist society emerges from the contradictory relation which arose historically from the separation of the immediate producers from the means of production, the fundamental premise upon which the capitalist mode of production is based. For the capitalist state to be able to reproduce itself it has to `constitute itself as the social form determining the conditions of life'(Bonefeld,1992:106) in capitalist society. This was an intensive and bloody struggle in which, through the combined impact of coercion and the transformation of property relations through new forms of formal regulation and administration enshrined in the law, and maintained by the state, new forms of social relations of production were constituted. As Pashukanis observes, "At the same time, therefore, that the product of labour becomes a commodity and a bearer of value, man acquires the capacity to be a legal subject and a bearer of rights" (Pashukanis, 1978:112). The generalisation of the commodity form of production and exchange and the establishment of abstract legal subjects made possible the reproduction of social relations in forms which pre-suppose alienated labour and private property and in which *value* and *law* is intimately connected, reproducing the economic and legal forms of capitalist social relations. "Legal fetishism complements commodity fetishism" Pashukanis,1978:117).

The social form of the capitalist state rests on the contradictory relation between exchange and production in a society of generalised commodity production based on alienated labour. The production of surplus-value depends on the appropriation of alienated labour. The labour appropriated is reduced to its social form as abstract labour. Abstract labour, the substance of value, presupposes on the one hand, generalised production and exchange of commodities for the purpose of expanding value and on the other, the imposition of a social force that would maintain the command of capital over labour by attempting to ensure that the reproduction of social relations remains subordinated to the reproduction of capital." The capitalist mode of production is [distinguished] by the integration of the value form with abstract labour, and of the labour process with the valorisation of capital, as the appropriation and distribution of surplus labour is alienated through the exchange of commodities" (Clarke, 1989:136) "The category of abstract labour attains generality in capitalist society as command over labour within the circuit of capital as a whole" (Bonefeld,1993a;101). Capitalist social relations can only assume pre-eminence within society on the basis of the command of capital over labour. The forms assumed by these social relations embody and are itself defined by the antagonism between capital and labour. These forms are `generally the way in which contradictions are reconciled'(Marx,1983:106), and include social forms expressing `economic' relations: the value form and the money form; as well as state forms. These forms are expressions of the antagonistic relations between capital and labour, i.e., they are the expressions of class relations in capitalist society. "The notion of the primacy of class antagonism [implies that social structures] exist only as modes of existence of class antagonism and hence as social process, and..as historical results of the working of class antagonism and hence as historical premises for class struggle. As such, structures exist as things *qua* reification of human relations. Historically achieved structures of the capitalist state...are structures imposed upon capital and the state through the historical development of class struggle which compelled the state to reconstruct the way in which labour is contained within the context of the expanded reproduction of value" (Bonefeld,1993:114).

It is the class relation in capitalist society that `suffuses the circuit' (Clarke,1980:10) of capital and therefore reproduces the antagonistic relations in and through the circuit. What follows from this, as Clarke (1978) demonstrates, is the conceptualisation of class relations as *preceding* the political, economic and ideological forms through which they are manifested, even though class relations do not exist independently of such forms. This conceptualisation enables the complexity of the relation between the economic and the political, `their interconnection as complementary forms of the fundamental class relation' to be analysed without resorting to the pluralism of bourgeois social theory. The foundations for theorising the capitalist state, lies "neither in the specificity of the political, nor in the dominance of the economic, but in the historical materialist category of the capital relation" (Holloway and Picciotto, 1991:112). The category of the capital relation is not derived logically from the capitalist mode of production, but is a category refering to a real, historically determined set of relations which constitute a moment in the class struggle between capital and labour and which sets the limits for the development of the form and function of the capitalist state.

With the notion of the `capital relation' as the starting point, the question arises, "What is it, then, about class domination in capitalist society (i.e. the capital relation) that generates the `fantastic form' of the state, that makes the state assume a form apparently separated from the immediate process of production?"(Holloway and Picciotto,1991:113) The formation of the capitalist state coincides with the establishment of generalised commodity production and its continued reproduction. Commodity production i.e. production for exchange, rests on the separation of production and consumption mediated through the exchange process. The separation of production and consumption transforms the individual into abstract legal and economic subjects whose relationship to society is determined by a system of private property. In a commodity producing society, abstract legal individuals relate to private property and the process of exchange on the basis of formal equality. Formal equality however, contradicts the actual process of capitalist production which is based not on equality but on the command of capital over labour and the appropriation of the surplus-value created in the labour process. "The immediate contradiction of this process...consists of the continual undermining of the appearance of equality of exchange in the sphere of circulation by the inequality in the sphere of production (Holloway and Picciotto,1991:128).

The state arrogates to itself certain functions as a result of the historical development of the class struggle. The process of the dismantling of pre-capitalist social forms which made possible the generalisation of the integration of the value form with abstract labour as the substance of value and the constitution of a labour process is inextricably linked with the valorisation of capital in which, "the appropriation and distribution of surplus labour is achieved through the exchange of commodities" (Clarke,1989:136). It is as a consequence of these processes that the capitalist state emerges and is reproduced as a moment of the class struggle, for class domination is mediated through the process of commodity exchange. A social force (class domination) resulting from class antagonism is abstracted from the immediate process of production, from particular capitals, constituting the political and economic as specific forms of domination. These forms of domination achieve institutional expression in the state.

Because class domination is mediated through the process of commodity exchange, and therefore mirrors the fetishised form of commodity relations, the state appears as an apparantly independent social force. "The reproduction of social relations in fetishised form, i.e. in a `fantastic form' which conceals their reality as relations of class domination, is an essential part of the reproduction of that domination" (Holloway and Picciotto, 1991:114) and an essential condition for the existence of the capitalist state. The autonomy of the state is both real and illusory; while it conceals the reality of capitalist social relations, the reproduction of these relations and the state itself depends on the maintenance of the illusion: "The autonomisation of the state, which forms part of, and is a necessity for the accumulation of capital, involves not only the necessity of separate political institutions, but also a constant class practice involving the structural and ideological separation and fetishisation of economics and politics and of the private and the public. The survival of the political institutions and hence of capital depends on the success of that struggle in maintaining this separation, by channeling the conflicts arising from the real nature of capitalist society into the fetishised forms of the bourgeois political process"(Holloway and Picciotto, 1991:115).

Forms of domination and forms of class struggle

Money, law and the state are `differentiated and complementary' forms of the power of capital. They express the contradictory character of the capitalist mode of production rather than the functional integration of the capitalist state. Class struggle is not confined within these forms because, "The forms of capitalist domination are themselves the object of class struggle, as capital and the working class confront them as barriers to their own social reproduction...their development is the outcome of a history of class struggle in and against the institutional forms of the capitalist mode of production, whose historical resolution is always provisional"(Clarke,1988:16).

Money, for Marx, did not serve merely as a means of circulation, but was also (in its developed form) the independent form of value. "The subordination of social production to the power of money gave rise to antagonistic social relations of production in which the power of money confronted the direct producers in the form of capital, and in which social production was subordinated to the reproduction of capital. Money and the law were consequently the social forms through which civil society and the state were subordinated to the power of capital"(Clarke,1988:18).

The power of money

"The power of money does not derive from the institutional forms in which it appears. The power of money is the power of command over commodities and, in a capitalist society, over labour-power as a commodity. It is consequently the most abstract embodiment of the social power of property. ...The subordination of civil society and the state to the autonomous power of money...is the permanent expression of the subordination of the economic, social and political reproduction of capitalist society to the reproduction of the social power of capital"(Clarke, 1988:9).

The determination of state form

The liberal state form was constituted on the basis of the separation of the state from civil society. It emerged out of the crisis which occurred with the subversion of the political and ideological forms of the pre-capitalist state as a consequence of the penetration of capital and the rule of money over social production. The way the crisis was resolved was to reconstitute the state "on the basis of the radical separation of the state from civil society and of the social power of money from the political power of the state"(Clarke,1988:17). The presuppositions of classical political economy accorded with outward manifestations of the emerging state forms and gave it the necessary ideological and political form and legitimacy. The market, regulated by the law of property, was deemed as the means by which general interests could subsume particular interests. The forms of regulation and administration instituted by the capitalist state would seek to confine the particular interests to the rule of money and the law.

`Fractions' of capital and the state

The particular interests of individual capitalists are conditioned by the process in which the state seeks to contain the contradiction between capital and labour by the imposition of law and the power of money. The relationship between general interests and particular interests is particularly pertinent in relation to the debates concerning fractions of capital.

Marxist theorisation in Britain on the relationship between the state and capital in the late sixties and early seventies revolved around the relationship between the landed aristocracy, industrial capital and financial capital. During the 19th century, according to Perry Anderson, the landed aristocracy absorbed the industrial bourgeoisie and asserted its own `traditionalist' ideology on to the ruling bloc. With the rise of British imperialist expansion, the argument goes, the aristocracy and the commercial and financial elites (particularly from the City of London) forged a consensus which resulted in a new social bloc on the basis of City hegemony. The consequences within the ruling class of the hegemony of landed, financial and commercial fractions of capital, historically in this order, resulted in the subordination of industrial capital. The case for aristocratic hegemony was based on W.D. Rubinstein's analysis of inherited wealth and the ideological survival of traditionalist values. Anderson also employed the moral argument concerning the `earned' and `unearned' income of the industrial bourgeoisie and the aristocracy as sign of the conflict between the two. David Nichols argues that Anderson's argument of aristocratic hegemony, "leads him towards a characterisation of the British state as in essence unchanged since the seventeenth century - thereby glossing over important moments of adjustment and restructuring...and the growth in the state coercive and ideological mechanisms" (Barker and Nicholls,1988:49). Nicholls notes that the industrial bourgeoisie's political programme was essentially centred on parliamentary reform and did not challenge existing capitalist relations of production. Prior commercialisation of agriculture and the political domination of the landed aristocracy laid the basis for capital accumulation and industrialisation. This in itself fundamentally circumscribed possible conflict between the aristocracy and the industrial bourgeoisie. Thus it was that "the reform programme [of the industrial bourgeoisie] was always congruent with and not antagonistic to capitalist relations of production. In this sense, therefore, the political struggles of the aristocracy and the bourgeoisie were never fundamental and, indeed, their contestation served to mask the real sources of power and to enlist the working class behind the middle-class radical programme" (Barker and Nicholls,1988:51).

Hobsbawm's explanation of the decline of British industry, was another influential argument that informed analyses of the City-industry divide and the continued hegemony of the aristocracy. Hobsbawm argued that the absorption of British entrepreneurs into the aristocracy was not a cause of the decline of industry, but rather the consequence of industrial decline brought about by foreign competitiveness towards the end of the 19th century through the lack of renewal of an increasingly obsolete industrial base. Instead of dealing directly with this problem, the crisis facing British industry was averted by capital export, international trade and lending. This thesis provided a left explanation for the decline of industry and the rise of the City. The City's hegemony, represented institutionally within the state through the Bank of England and its relationship to the Treasury, enabled the imperialist interests of British economic policy - in particular the forging of an international role for sterling in the world economy and the promotion of the City of London as an international financial entrepot. It is the City's role in the furtherance of British imperialist interests that provides the key explanation for the hegemony of the City and the consequent decline of British industry, leading Anderson to declare, "the City is now...the most sectionally decisive single determinant of the shape of the economy"(Anderson,1966:14).

The debate soon shifted however with Geoffrey Ingham's study (Ingham,1984). Anderson abandoned his earlier position to adopt the analysis suggested by Ingham. Ingham argues that "the key to understanding British economic development lies in the recognition of the essentially commercial (and not simply financial) character of the City"(Ingham,1984:5). The City's main role lies in the `intermediation' of financial relationships, a role that is essentially commercial. Accordingly, "British society as a whole is not `retarded' or `advanced' but constitutes a unique case of one in which international commercial capitalism has been dominant, and has had a determinant impact on its class and institutional structures"(Ingham,1884:6). To Ingham, Marx underestimated the importance of British commerce, consequently failing to see "the increasing independence of Britain's non-productive forms of capital from domestic production (Ingham,1984:8). In the process the emerging financial system "became highly and unusually centralised under a Bank of England control whose interests were international, fiscal and narrowly monetary. The banking system became geared to the stabilization of sterling above all else. This involved continual short-term adjustments in monetary policy, which, arguably, have clashed with the longer term financial requirements of modern industry. Consequently, when the nineteenth century liberal world economic order began to disintegrate and Britain faced intense competition in industrial production, the kind of response envisaged by Hilferding and advocated by others could not take place. Economic exigency might have dictated a second wave of industrialisation based on protection, state sponsored and bank-based `finance capital', but the state system, the dominant class and the financial sector of the economy had become locked into quite another trajectory. Their interests were now defind as the `national' ones - that is to say, this part of British capitalism was truly hegemonic. And the City plutocracy and their clients were insulated, in their accumulation of wealth, from any domestic recession or incipient decline. Many of their successors remain similarly immune from such parochial issues" (Ingham,1984:10). By the end of the 19th century, the City, Bank of England and Treasury formed an interdependent nexus, under the overall dominance of the City. According to Ingham, "It was at this point that the City - industry `split' emerged at the financial and, later, the political level, when the scale and complexity of mass production industry required greater quantities and qualitatively different types of finance than the system was either able or willing to provide. This was not due to the paucity of available investment funds, but, rather, because of ...the gradual subordination of the overall financial system to the City, and the role of sterling as an international currency"(Ingham,1984:143). The institutionalisation of short-term lending and commercial trading on the secondary capital market, both features which emerged with the development of the financial system, were barriers to a closer finance-industry relationship.

Rejecting both Anderson and Ingham's accounts, Clarke (1990) sees the City-industry divide as "an expression of the contradiction inherent in the capitalist mode of production between the tendency of capital to develop the forces of production without limit, and the need to confine production within the limits of capital" (Clarke,1990:2). Anderson and Ingham's accounts rely on sociological explanations based on the privileges of the financial aristocracy, or on an institutional framework based on the independence of the state and the autonomy of the Treasury and the Bank of England. Both accounts search for explanations based on the surface manifestations rather than analysing the social process responsible for these surface forms.

In his analysis of capitalism, Marx makes an important distinction between `capital-in-general' (total social capital) and `particular capital'. Paradoxically, while the former represents the total social capital involved in the production and realisation of surplus-value, it only exists as particular capitals competing with each other. "The interdependence of capitals does not appear immediately in the particular relations of purchase and sale into which the individual capitalist enters, for each particular relation is one of a conflict of interests, in which each individual capitalist seeks to realise his interests at the expense of other capitalists"(Clarke,1990:5). But the interest of the individual capitalist finds a barrier in the general interests of capital. This is represented by the market which seeks to resolve this contradiction by confining capital accumulation in particular branches of production to the limits of the social requirements for the commodities produced. Through the enforcement of the laws of capitalist property and the rule of money, the state ensures the reproduction of a process of accumulation confined within the form of the production and realisation of surplus value.

Limits are imposed on the individual capitalist through the cost and availibility of credit. The credit system and the development of state money ensures that "the subordination of capital to the rule of money is mediated through the state"(Clarke,1990:6). But competitive pressure generates a counter-tendency for accumulation without limits. As a result, over-accumulation (i.e. the over-production of commodities in particular branches of production) leads to inflationary pressure. With reduced opportunities for productive capital, surplus money capital tends towards speculative ventures. Monetary constraint i.e. restrictions on credit, increased interest rates, etc., is expressed in the conflict between productive and money capital. It is this conflict which is theorised by Andersen and Ingham. Their accounts, however, do not succeed in unravelling the underlying social processes which generate the conflict between productive and money capitals in the first place.

The contradiction that arises between these two forms of capital is an expression of the contradiction inherent in the social form of capitalist production, viz. the contradiction between the tendency to develop the productive forces without limit on the one hand and the limitations imposed by the social form of capitalist production, i.e. production for profit. "It is ultimately through the monetary policies of the state, mediated through the banking system, that the `interests' of capital-in-general are imposed on particular capitals as the expansion of production is confined within the limits of its capitalist social form" (Clarke,1990:7). Rather than expressing particular `fractional' interests, the relationship between the different forms of capital is one of interdependence as `differentiated functional forms of capital'.

Money capital and the form of the capitalist state

For Hilferding, the emergence of finance capital set new conditions which transformed the form and character of the capitalist state. In concentrating capital's economic and political power, finance capital not only facilitates capital's political interests, but also enables the unified power of capital to confront the state and transform it according to capital's own interest. Ingham(1984) saw in the development of capitalism in Britain a `unique case' in which the dominance of international commercial capitalism, `has had a determined impact on its class and institutional structures', resulting in the formation of a City-Bank of England-Treasury nexus, `under the overall dominance of the City.'(Ingham,1984) According to Jessop, "The most important general aspect of the form of the capitalist state is its particularisation (its institutional separation from the circuit of capital)" (Clarke,1991:169).

All three positions have in common a conception of the state, separated and distinct from the functional forms of capital. It is a conception in which economic forms influence, direct or transform the state according to its requirements, from without. This concept of the externality of the state is in accord with the concept of the `particularity' of the state as a political institution.[2] However, developments in the 60's and 70's (the increasing internationalisation of capital, the growth of the welfare state and the emergence to power of social democracy in Germany and Britain contradicted these positions. The state cannot be identified directly with monopoly capital, nor the nation-state with the interest of `national capital'. The state could neither be reduced to an instrument of the capitalist class nor can it be neutral in the course of the class struggle. It should be seen, rather as an `arena of class struggle'(Clarke,1991:195).

As Clarke argues, Marx's analysis of the self-reproduction of the capital relation, regulated through the market, implies that, "the state is not, in the strictest sense necessary to capitalist social reproduction. The necessity of the state is...the historical necessity, emerging from the development of the class struggle, for a collective instrument of class domination"(Clarke,1991:188). The way in which the state safeguards the general interests of capital, in the first instance, is through ensuring the continued functioning of the market. This is done by enforcing capitalist property laws and the power of money. The

[2] The theory of state monopoly capital and the social democratic theory of the state share these presuppositions. The former saw the state directly taking on the functions of capital, while the latter stressed the autonomy of the state as a political institution.

separation of the state from civil society with the emergence of capitalism was part of the transformation of property relations associated with this process. What distinguishes the relationship between the state and civil society is a relationship of complementarity "based on the mutual subordination of state and civil society to the money power of capital, expressed in the 'independence' of the institutional forms through which this mutual subordination is mediated, the judiciary and the central bank"(Clarke,1990:9). It is this subordination of the state and civil society to the money power of capital which constitutes the basis of the process through which the state is reproduced as a capitalist state.

Ingham and Anderson concentrate on fractional struggles to secure particular forms from the state, but do not analyse the fundamental form and function of the state that constrain this fractional struggle. They thus look at the role of the state in the redistribution of surplus value, but ignore the relation between the distribution of surplus value and its production and distribution, and the forms through which the latter constrain the former.

CHAPTER TWO

Shifting paradigms; shifting politics: Neo-marxist theorisation of the South African state and its effect on policy

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The emergence of the `revisionist' school of South African historiography, political economy and sociology and the involvement of key participants of this school in the political, trade union and community organisations in the seventies and eighties, have left a legacy that still remains a considerable influence amongst left intellectuals. This applies particularly to the formulators of policy within the COSATU-ANC-SACP alliance.

The political strategy of the alliance, to emphasise in the first instance the `national democratic revolution' and the vanguard role played by the ANC in this, has meant that the theoretical class struggle within the alliance has tended, fundamentally, to favour a bourgeois rather than a proletarian orientation even though the rhetoric of the alliance is couched in terms that appear favourable to the proletariat. An effect of this has been that marxist concepts used in political discourse are stripped of all their original and essential nuances and applied in a reified fashion, stripped of their flesh and blood, i.e., their connection to concrete reality. In this form, these concepts no longer carry their liberatory potential but serve instead to further increase the influence of bourgeois ideology in the mass movement. The employment of `marxist' categories in a bourgeois manner may serve the political purpose of marrying the `right' and `left-wing' of the alliance. It enables the alliance, which enjoys the deep and widespread support of a mass movement with strong proletarian traditions, to move towards the right by using marxian concepts rhetorically, without major disaffection from those proletarian forces already within its sphere of influence.

One of the arguments to be developed in this chapter, is that the neo-marxism of Althusser and Poulantzas generally, and in its particular application in South Africa, has left a legacy visible today in the economic and political policies of the ANC-COSATU-SACP alliance, which remains closer to the liberal paradigm than the radicalism of the neo-marxist critique had suggested.

The implications of this will be explored further below. First I want to outline the general principles upon which neo-marxism rests.

Neo-marxism arose as a response to what was regarded as `economistic' and `reductionist' accounts of segregation/apartheid and its relationship to the development of South African capitalism. Mindful of the liberal critique of existing marxist accounts, South African neo-marxism employed the theoretical categories of Althusserian and Poulantzian marxism, to provide an alternative to what was regarded as inadequate accounts on the left. In existing left accounts, the rise of SA capitalism and segregation/apartheid was derived essentially from the contradictions between capital and labour, based on a notion of the `ultra-exploitation' of black labour. According to Kaplan, this account, "has been largely incorrect, and this has resulted from an inadequate conceptual framework. Crucial in this regard, is the lack of differentiation made between the different classes of capitalists...By concentrating exclusively on the question of labour and particularly, by ignoring the question of surplus allocation and reinvestment (the critical magnitudes in the process of economic development), this radical literature has conceived of the problem incorrectly" (Kaplan,1974:1).

The neo-marxist critique of existing left accounts, on the other hand, was based on an analysis of the changing form of the SA state, derived from differentations within the capitalist class itself. Instead of seeing the capitalist class as one unified bloc, neo-marxism saw "the secondary contradictions between the different fractions of the dominant classes" (R.Davies et al, 1976:4) as critical in understanding the changing `form' of the state. Neo-marxism acknowledges that a `principle contradiction' exists between `dominant and dominated classes' but argues that the `secondary contradictions' "have an important effect upon the whole trajectory of capitalist development in South Africa." Thus the pre-occupation, in neo-marxist analysis, with contradictions within the dominant classes.

Neo-marxism supported the left critique of liberalism by recognising that fundamental social processes are the key to understanding the emergence of segregation and apartheid. But by treating the political struggles within the dominant classes as central to the analysis, neo-marxism reproduced the central concerns of the liberal analysis. The difference with the liberal consensus, however, is that these struggles are seen as resulting from the existence of `class fractions' within the state, these fractions having different interests derived from the different roles each performs in the expanded reproduction of capital. To the neo-marxists this `political class struggle' decides which fraction achieves hegemony. The resultant form of the state, is then a reflection of the interests (political ideological, economic) of the hegemonic class fraction. The emergence of the PACT government in the 1920's, then, "was essentially a conflict between fractions of capital over the redistribution of the surplus gained from the exploitation of black gold miners"(Morris, 1982:47). The consequence of this approach is that it leads directly into the liberal argument that sees the apartheid state as a site of struggle between `progressive' and `reactionary' capitalists rather than reflecting the relationship of capital and labour at a given moment in the class struggle (Clarke). This can be discerned in the way neo-marxism analyses the SA state and the reform process.

ASPECTS OF NEO-MARXIST THEORISATION

Classes, social classes and fractions

A distinction is made between `classes', constituted at the level of production, and `social classes' which are classes situated within political and ideological relations:

"Classes are constituted principally at the level of production, but to constitute them as *social* classes it is necessary to situate them with respect to the social division of labour as a whole, which includes in addition political and ideological relations" (Davies et al, 1976:5). Following Poulantzas, the neo-marxists argue that "class position does not flow automatically from a class determination. We thus specify social classes by reference to both the structural level (class determination) and their position in a particular conjuncture (class position)" (Davies et al, 1976:5).

The implication of this is that classes are fractured unities. Within the dominant capitalist class in South Africa, `fractions' exist, defined by particular interests derived from `differing roles in the expanded reproduction of capital'. The state keeps the fractions together and ensures relations of exploitation, through political and ideological domination. To ensure that their particular interests hold sway, each fraction strives for hegemony i.e. to assume state power. This `class struggle' holds the key to changes in the form of the state:
"Differences in the form of the state are determined firstly, by changes in the composition of the power bloc and its allied and supportive classes, and secondly, by changes related to which class/fraction is hegemonic. The latter, we argue, is critical to any analysis of the South African state" (Davies et al, 1976:5). Thus, in the context of South Africa, neo-marxism suggests that the secondary contradiction becomes primary in the determination of the form of the state and which fraction is hegemonic.

Class and `race'

The neo-marxists rejected the view that apartheid should simply be understood in terms of racial oppression arising from the racial ideology of certain white groups in SA society. They also rejected the view that SA capitalism is inherently rational and colour-blind (O'Meara). The argument is that, "Racial policy has been a crucial agent of both development and distribution. Thus an understanding of race relations in South Africa must be rooted in a conception of the specific relations of production of South African capitalism, and the manner in which racial laws and policies both affect and actively operate to disguise the nature of these relations. Variations in racial policy must be seen as flowing from changes in the structure of production and the alignment of class forces in social formation" (O'Meara, 1982:363). The concern is how racial policies cover up the real relationships and social processes. [1]

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[1] This is a variation of the approach adopted by Legassick, who, upon observing that apartheid ideology cloaks the `realities of domination and inequality, goes further in his analysis: "Yet apartheid must be seen also at the level of reality. which means examining the ways in which the policies it institutes flow from and react back on the structures of production and power, i.e., on an examination of the specific forms taken by capitalist production and the capitalist productive cycle in South Africa."(Legassick,1982;p.469)

Capitalism and apartheid

The neo-marxists departed from the point of view that, "continued capital intensification, and the pursuit of separate development, have been, and continue to be, quite compatible" (Legassick,1982:499), to assert that apartheid signifies the hegemony of a particular fraction of the dominant class engaged in ongoing struggles with other class fractions within the power bloc. The marxist revival in academic studies, represented by Legassick, O'Meara, van Onselen, etc., demonstrated that segregationist/apartheid policies suited the interests of the capitalists *as a whole*. This position, implying that SA capitalism was not of a special type, therefore opened up the question of the nature of capital accumulation in SA and its relationship to the state. The neo-marxists, `backtracked' from the direction taken by this inquiry, seeing apartheid instead as the particular policy of one fraction of capital.

To the neo-marxists, apartheid represents the victory of `national capital' (agriculture and manufacturing) over `imperialist capital'(mining). The struggle was fought over a policy of protectionism. National capital was not very competitive on the world market and therefore tended to favour restrictions on foreign trade in order to maintain an internal market with prices above the world average. Mining capital favoured a free trade policy in order to keep prices in the internal market to a minimum. This contradiction was exacerbated after the first world war with the fall of the premium price of gold. Industrial and agricultural commodity prices also declined sharply. With the resultant intensification of competitive pressure on the national economy, protectionist calls became stronger. With the slump in the gold price, mining capital insisted on cost reduction. Its hegemony meant that the prevailing state policy remained in favour of free trade. As a result, the neo-marxists argue, national capital became increasingly alienated from mining capital. This led to a series of party political realignments.

The attempts by the mine bosses to cut white mine-workers' wages in 1922 set the conditions for an alliance between national capital and the `new petty-bourgeois'(after Poulantzas). With this alliance consolidated into an electoral pact between the Nationalist Party and the Labour Party, national capital achieved hegemony in 1924. According to Davies, this was "a logical outcome of the development of South African capitalism, which had thrown up local white settlers with interests independent of those of the international capitalists. It is this class alliance which remains the key to understanding the South African system today" (Davies,1973:42).

Using the theoretical concept of class fractions, the neo-marxists trace the development of the SA state up to 1948 when the Nationalist Party won the general election. This event is regarded as the moment when the class forces represented by the Nationalist Party (agricultural capital, `new' petty-bourgeoisie and the white wage-earners) capture state power. These class forces were committed to the hegemony of `national' capital and therefore set about their strategic objective. According to this viewpoint, "apartheid represented primarily an attempt to restructure relations of exploitation to cope with agriculture's labour crisis, and to establish a system of (e)stablished (sic) urban labour which would threaten neither farm labour supplies nor compete with the petty bourgeoisie or white labour" (Davies *et al*, 1976:27).

The analysis found, however, that, "The dominant contradiction between the exploited and exploiting classes...served to unite capitals in their need to maintain their position of dominance. But the imperialist/nationalist division served to divide and disorganise the power bloc in their attempts to do so. Simultaneously, the policies of the Nationalist Party which served to deepen the interpretations (sic) of capitals after 1948, created the conditions for the assumptions of hegemony by monopoly capital after 1960. This had the dual effect of both sharpening the contradiction and struggle between capital and labour, and reducing the conflict within the power bloc" (Davies, *et al*, 1976:29).

The apartheid state

Neo-marxism saw the state as an instrument of class rule, used to maintain and develop the capitalist mode of production and the distribution of the surplus between the various class fractions. Thus, the argument, that "Apartheid has consisted (from the point of view of capital) in the direct intervention of the state in the reorganisation of the social basis of the production process"(Morris,1982:49). But in the fractional conflicts within capital, the state's function of distributing the surplus, in itself, is seen to have played a decisive role in determining the outcome of these contestations for hegemony: "...the state has through a variety of fiscal and monetary measures...acted to redistribute the surplus thus created, away from the `foreign' dominated mining sector towards the `indigenous' sectors of mining and agriculture" (Kaplan,1974:7). It is in the sphere of distribution, as distinct from production, within which neo-marxism sees the `political instance' defined and which makes it possible to distinguish between fractions of a class. Morris explains that "in introducing the political instance we must make it clear that we are doing so in the realm of consumption rather than production. In other words in the region of the redistribution of surplus rather than in the creation and direct appropriation of it." (Morris, 1974:6)

Notwithstanding the admission that the power bloc was acting in unison, facing a common threat in the struggle between capital and labour, the essential character of the apartheid state in the 1960's was still seen in fractional terms, i.e. this time, as the hegemony of monopoly capital. The focus of analysis is centered on distribution rather than the production and appropriation of surplus value. It is this that makes the neo-marxist analysis social-democratic.

Analysing the reform process

The debates which raged in the seventies were given added resonance by the unfolding of events in South Africa. The rise of an independent workers' movement, the 1976 uprising and the introduction of reforms by the apartheid state, all contributed to drawing the attention of neo-marxism to analysing this crisis and the reform process.

Despite the change in focus, neo-marxism continued to adopt the same theoretical approach as it had done in the seventies. A solution to the accumulation crisis is sought through progressive elements within the ruling class determining a new accumulation strategy.

Morris and Padayachee (1988) encapsulate the perspective that informs neo-marxist thinking on the reform process in South Africa. The paper argues that an economic and political crisis exists in South Africa, caused essentially by "a variety of contradictions and conflicts within capital and between the state and the popular classes". In order to resolve this crisis, "a major restructuring by the state was required and a new social structure of accumulation had to emerge".[2] Apartheid policy, the basis of a social structure of accumulation, could not sustain further accumulation and guarantee political stability. Further, the paper argues that the new social structure of accumulation is not pre-determined, but is shaped by the configuration of class forces, different class forces `within the state' and the constraints of `historical policies and strategies'. Both dominant and popular class organisations have a double limitation: ideology, on the one hand, and the structural limitations posed by `past strategies and practices'on the other.

Within this perspective then, Morris and Padayachee separate their analysis into two parts: firstly, the `socio-economic' aspects of the reform process and, secondly, the `social and political' aspects.

[2] Morris & Padayachee (1988) p.1

The previous social structure of accumulation, they argue, was based on a system of `differentiated reproduction and exploitation of labour power'. This entailed "maintaining a migrant unskilled black labour force with subsistence roots in the reserves (or later bantustans), partially reproduced via a socio-economic/politico-ideological structure of pre-capitalist social relations" (Ibid:2), tight control of a smaller, fully proletarianised black labour force in the townships, a system of state intervention and control of labour (influx control) and the differentiated reproduction of the fully proletarianised white, coloured and asian workers.

According to the analysis this system worked successfully until, in the early 1970's, capitalism experienced a structural crisis. The structural crisis was a consequence of the following:

1. "Monopoly capitalism had come to dominate industrial capital with concomitantly more sophisticated requirements from the state controlled system of reproducing labour power" (Ibid:3); and
2. The dissolution of pre-capitalist subsistence relations in the bantustans, which meant that " the state could no longer attempt to secure the social reproduction of this section of the working class by displacement of the social welfare costs of reproduction onto rurally-based pre-capitalist subsistence societies."(Ibid:3)

The crisis within the social structure of accumulation resulted in pressures for "restructuring of the socio-economic basis of reproducing labour power of black workers" (Ibid:3). With the combination of these `structural tensions' and the struggles of 1976, " Capital and the state were starkly confronted with the realisation that their policy towards the popular classes had resulted in an overt unification along colour lines rather than a political division along class lines." This realisation, according to Morris and Padayachee, "was very quickly recognised as a serious and dangerous problem for the dominant classes and hence a new discourse of limited `reform' began to be seriously articulated by 1979", the purpose being to maximise division within the popular classes. The reforms were part of a new monetarist approach which encouraged a free market, the opening up of SA to the world economy and the reduction of state expenditure. "In effect", argue the authors, " the state was not so much removing itself from the political economy as changing its role." But the reforms of 1979-1983/4 did not meet with much success due to the adverse impact of the world economy, "structural changes in the socio-economic pattern of industrial and labour reproduction", and resistance in the townships.

Consequently, "The state's reform initiative to depoliticise collective consumption in the townships produced its direct opposite - the massive politicisation of struggles over township collective consumption. The result was that, by the early 1980's, a new initiative was building up as state planners took cognisance of the structural and conjunctural tendencies occuring in society" (Ibid:9).

Instead of strengthening the rural urban divide, the new aim is to "reorganise the class structure of black society by encouraging class differentiation on a new social and geographic basis. The reproduction of differentiated labour power is to take place wholly within the confines of capitalist society and through a state-directed process of urbanisation" (Ibid:10).

Popular resistance to the reform process led to a shift in state strategy: " The state temporarily abandoned the `democratisation' elements in its reform program and initiated a series of repressive interventions to restore stability, if not normality" (Ibid:16). This shift in state policy had its effect on capital as well. According to Morris & Padayachee, "The more conservative sections of monopoly capital, responding to the success of the state's stabilisation strategy and the corresponding inability of the organisations of the popular classes to demonstrate that they are a viable alternative, have gained political control over the corporate organisations of capital" (Ibid:21). This is significant for Morris and Padayachee in that for them

it explains the turn towards greater repressive measures and more decisive intervention by the state in order to ensure the restructuring of the economy and the sustaining of economic growth for selective redistribution (as a means to resolve the crisis confronting the state). Analysing the state's response as a whole, the authors conclude that:
"The reform process has been characterised by the South African State demonstrating a surprising ability to engage in social, administrative and ideological experimentation" (Ibid:23)

While Morris and Padayachee (1988) analysed the reform process over the period up to the early 1980's, Gelb (1990) and Kaplinski (1990) look towards a future `post-apartheid' era and, in analysing the crisis facing South Africa, suggest ways in which the crisis could be resolved. With slight variations all three share the same theoretical assumptions and perspective on the social crisis.

Gelb (1990) argues that the key to the resolution of the `economic crisis' facing the South African economy, is the choice of a `growth model':
"South African capitalism reached a turning-point in the mid-1970's reflected in both the decline of the long-run growth rate of the GNP, as well as the more unstable and volatile shorter-run cyclical fluctuations since that time, as compared with the period following World War

II. These changes in the pattern of GNP growth have been linked to the failure of the `growth model' - the combinations of patterns of production, distribution and consumption, in other words, the form of capitalist growth - which had characterised the post-war period of relatively sustained economic expansion" (Gelb,1990:26) The failure of the growth model, arising out of the rising costs of imports, the collapse of the Bretton Woods system of fixed exchange rates and the rise in the real wage levels of African workers, led to stagnation and declining investment and productivity.

According to Gelb(1990:29), the reform process since the 1970's has essentially served the purpose of propping up the `racial Fordist growth model'. "The ending of apartheid", Gelb believes, "would finally make it possible - but not necessary - for a new growth model to emerge in the future" Two possible options emerge from this analysis (both within the growth-redistribution framework). On the one hand, a neo-liberal export oriented growth model, involving privatisation and reduced state interventions in the economy, and an alternative strategy, supported by Gelb, which attempts to "achieve growth through the more extensive and more rapid redistribution of incomes and wealth" (Ibid:35), in which the state would play a critical role in `shaping the activities of economic agents'.

In formulating a policy for a `post-apartheid South Africa, Kaplinski (1990) also sees the choice of a `growth model' as critical in getting out of the current crisis[3] which he sees essentially as a decline in economic growth after the 1970's as a result of "the relative failure of the manufacturing sector" and the fact that "political conditions for apartheid accumulation failed to work effectively" (Ibid:43). As an alternative, he proposes a new growth model: growth through redistribution, which, he argues, "reassures capital that a post-apartheid state places growth centrally on the agenda; it reassures the masses that a post-apartheid state places redistribution centrally on the agenda; it distinguishes apartheid accumulation (which depended upon inequity and which was increasingly unable to ensure growth) with post-apartheid accumulation in which growth can occur only if prior redistribution takes place" (Ibid:46). Accompanying the growth model outlined by Kaplinski, is the commitment to a `mixed economy' and to planning in which "the state becomes a dynamic facilitator and a `knowledge-broker'" in a process involving all significant parties such as organised labour, capital and research institutions.[4]

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[3] Kaplinski (1990) p.43 : "It is clear that the recent failure of the South African economy can in large part be explained by the very choice of this growth model."

[4] Ibid p.47

These ideas have been recently brought together by the Economics Trends Research Group, representing the first phase of a research project commissioned by COSATU. Here, the political implications of this approach are brought out more clearly. Criticising the popular movement for overestimating its own potential, Morris[5] argues that the ANC and UDF, "placed inordinate stress on an insurrectionary strategy, even though it often contradicted other strategies designed to split the ruling bloc and win over significant sectors of the white population to the political ideals of a non-racial, democratic and unitary state." This strategy, continues Morris, "served instead to unite the ruling bloc firmly behind a state promising the restoration of law and order" (Gelb,1991:49). As a result, not only did the state crush the insurrectionism of the 1980's, "it had also successfully *eliminated insurrectionary conceptions from the discourse of the popular forces*, substantially weakened their organisational strength and placed the trade union movement on the defensive" (Gelb,1991:53; my emphasis). Morris believes that the dominant classes have responded to the crisis "more rapidly and flexibly" than the dominated. "The former have finally, after a decade of experimentation, formulated the basics of an accumulation stategy and hegemonic project to resolve the national question and

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[5] Morris,M. `State, capital and growth: the political economy of the national question', in S.Gelb(Ed), 1991.

restore growth on terms most favourable to themselves. The onus now rests heavily on the organisations of the dominated classes, in particular the African National Congress, to respond flexibly to the new political conditions"
(Gelb,1991:56).

As a departure from insurrectionism towards the perceived requirement of greater flexibility, the neo-marxist reform theorists offer an alternative economic strategy to address the economic and political crisis. Morris summarises this alternative as follows:
" Economic growth would be stimulated through the redistribution of productive capacity towards the more marginalised sectors of the population. This would entail a systematic political commitment to welfare policies, redistributive mechanisms and urban-rural reconstruction, such as residential infrastructure, housing, electrification and telecommunication programmes." (Gelb,1991;p.58)

ANC-COSATU-SACP perspective on social transformation in South Africa

Having outlined above the varieties of neo-marxist thinking in South Africa, one may now consider how it has shaped the thinking within organisations in the mass movement as well as to what extent neo-marxism is embodied in the policy formulations of the alliance.

The formal establishment of the Tripartite alliance in 1990 was the culmination of a process, accelerated since the Durban strikes of 1973, which saw the regeneration of the militant tradition crushed at Sharpeville in 1961 and the increasing of popular support for the ANC-SACP alliance. The formation of FOSATU in 1979 had asserted working class traditions of organisation in the mass movement. The birth of COSATU in 1985 took that tradition further, but fashioned it towards closer accord with the ANC-SACP tradition. And now each constituent organisation, despite the internal debate and ideological struggle that may be occurring in each, is identifying itself strategically and tactically with liberal reform and reconstruction of the political system, rather than the social transformation of the capitalist order in South Africa. `Reconstruction' rather than `insurrection' has become the dominant feature of the policies being formulated by the Tripartite alliance today. This does not mean however that the socialist project has failed or has been removed from the agenda. Proletarian political forces inside and outside the alliance will, no doubt, continue efforts to propel the mass movement towards socialist objectives. But, in the immediate phase of the reform process, economic restructuring is separated from socialist transformation. COSATU's formulation, of `a mixed economy with a socialist orientation', is an attempt to ensure that whatever reforms take place should not impede a process of transformation towards socialism in the future. However, if this is to be regarded as a serious objective, and not merely socialist-sounding rhetoric, then the ideological content embodied in current economic and political policies need to be subjected to the scrutiny of marxist theory, in the same way that the organisational practice of the alliance is constantly being subjected to the 'test' of concrete struggle, in order to ensure that its organisational achievements remain in line with its declared objectives.

COSATU's Economic Policy Conference in July 1991 committed the organisation to an active intervention in the formulation of state economic policy. It is reported that

participants saw current policies of restructuring by the state and capital as attempts to maintain the status quo. Employers, it was further argued, "are motivated by a short-term view of profitability rather than any long-term perspective of development.(...) By contrast, COSATU seeks an economic framework that emphasises growth through redistribution and which links immediate policies with the struggle for socialism" (Joffe, 1991:42).[6] The thinking underlying this approach is

[6] Avril Joffe reports further that "Many delegates were concerned that the goal of socialism should not lose out to a revitalised, more efficient form of capitalism

summarised in a policy document (COSATU,1991). The SA economy, according to this document, is facing a structural crisis arising as a result of:

1.apartheid limiting expansion
2.lack of investment in the productive sector
3.reliance on raw material exports
4.reliance on imported heavy machinery
5.low quality and competitiveness of manufactured goods
6.failure of existing agricultural policy

This structural crisis necessitates restructuring of the economy. COSATU believes that "The working class must develop an economic policy which provides for a democratically run economy and which ensures that:

a) the economy grows and jobs are created;
b) the standard of living of the working class is increased;
c) the basic needs of the people are met;
d) the economy is able to compete internationally;
e) the inequalities caused by apartheid are addressed;
f) we have a mixed economy with a socialist orientation, and containing private, public and co-operative sectors"(COSATU,1991:39).

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where the benefits of economic and industrial restructuring are engaged only by a few - even if it includes the organised working class. Some felt that COSATU's involvement in negotiating on these issues would be more likely to result in social democracy than socialism."(Joffe,A. 1991; p.44)

While the notion of a `mixed' economy is mirrored in ANC policy as well, the idea that such an economy should have a `*socialist orientation*' is absent from recent ANC policy statements. The ANC also sees the key solution to the `structural crisis' as the choice of a `growth path'. Echoing the theoretical framework set by the neo-marxists, `growth through redistribution' becomes the favoured growth path. According to Tito Mboweni, Head of the ANC's Department of Economy and Planning, "GTR (Growth Through Redistribution) challenges the very foundations of neo-classical economics. In this growth path, accumulation depends upon the redistribution of resources - redistribution is not viewed as an optional extra but as a requirement of growth." (Mboweni, 1991:69)

`Growth through redistribution' is seen as the economic policy necessary for the development of, and the resolution of the crisis in the SA economy. It is seen to constitute the desired growth path to be implemented by a `post-apartheid' state, in which the "non-racial and democratic state would follow an economic strategy that aims to achieve economic growth through a process of increasing equality in the distribution of incomes, wealth and economic power."[7] This `non-racial democratic'

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[7] ANC/COSATU, `Recommendations of post-apartheid economic policy', in Transformation Vol.12, 1990; p.2.

state would be brought about through a process of negotiating a political settlement within the framework of a political process which assumes that "a conjuncture of circumstances exists which...could create the possibility to end apartheid through negotiations."[8] The constitutional framework proposed by the ANC for the new state, will enable it "to determine the general context in which economic life takes place and define and limit the rights and obligations attaching to the ownership and use of productive capacity".[9] Their objective is therefore to dismantle the institutional basis of apartheid and, at the same time, develop state institutions on a new constitutional basis, strong enough to make possible reforms of the capitalist order of such a nature that stable regulation of capitalist accumulation becomes possible and the social crisis created by the apartheid state can be averted. In short, as one analyst puts it, regulation theory is being used "to explain how a transition to a *managed capitalism* may be feasible through an African National Congress - COSATU economic programme" (Bond, 1990: 29 - my emphasis).

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[8] OAU, `Declaration of the OAU Ad-hoc Committee on Southern Africa on the question of South Africa', Harare, August 1989. In `Discussion Papers for the Conference for a Democratic Future', issued by the MDM, 1989; unnumbered pages.

[9] ANC, 1989, `Constitutional Guidelines for a democratic South Africa', mimeo.

Towards acritical analysis of neo-marxist thought in South Africa

Neo-marxism's primary theoretical contributions have been on the analysis of the SA state (fractional analysis) and on the reform process (regulation theory). The purpose of this critique is to assess neo-marxist thought, as articulated and formulated by SA neo-marxists. While much of the theory is derivative of French or North American neo-marxism, to confine one's critique simply to the chief sources assumes that the interpretation and application of the theory follows the original theory without any distortion. This I do not believe is the case, for reasons that will be elaborated below. Also, SA neo-marxists are presenting *their* contributions for consideration by left intellectuals and the mass movement. It is this body of intellectual work, and not the theoretical sources from which they are derived, that resonate in the intellectual discourse, strategic planning and policy formulations. It is this that constitutes SA neo-marxism and, consequently, the object of this analysis.

The irrational core of neo-marxism, rests firstly, on the erroneous interpretation of what constitutes capitalist social relations, secondly, on the assumption that economic growth is a politically neutral process and thirdly, that the state is an instrument of capital.

Each in turn, has its own consequence for SA neo-marxism.

capitalist social relations of production

In `Wage, Labour and Capital', Marx argues that, "The relations of production in their totality constitute what are called the social relations, society, and, specifically, a society at a definite stage of historical development..." This led Marx to the conclusion that, "Capital, also, is a social relation of production. It is a bourgeois production relation, a production relation of bourgeois society." (Marx,1973;p160)[10] The notion that capital is a social relation, implies that it is part of a totality, which, as a whole, constitutes capitalist social relations. It is impossible to analyse capitalist relations of exploitation and the relations of domination without this conception of the totality of capitalist social relations. Political and ideological relations constitute part of the relations of production - in the same way as economic relations - because they constitute

[10] Cf also Marx (1984) p.814: "...capital is not a thing, but rather a definite social production relation,belonging to a definite historical formation of society, which is manifested in a thing and lends this thing a specific social character."

the different forms of social relations within which production takes place (Clarke).

The Poulantzian theory of social structure departs fundamentally from this perspective. Instead of a concept of social relations in the marxian sense, we have a theory of social structure, a theory of the state and a theory of social class; each of which provides a theoretical framework for a functional analysis, at different levels, of a `social formation'. This leads to a pluralistic analysis which employs conceptions of `economics', `politics' and `ideology' without their fundamental interconnections, as provided in the concept of social relations. In this sense Poulantzian neo-marxism profoundly debases an important characteristic of the marxian analysis.

economic growth

SA regulation theorists place emphasis on the choice of a growth model as a means for getting the SA economy out of the crisis. This, and the absence of a class approach to the question of economic growth, not only implies, but is treated as if, the choice of the growth model is a neutral issue which can simply be resolved in a technical way. In adopting such an approach, neo-marxism finds itself reproducing the arguments of the neo-classical economists, a position fundamentally at odds with a marxian approach to capitalist accumulation.

Capitalist growth presupposes the existence of a working class, possessing nothing but their capacity to labour, and the existence of a capitalist class able to exploit this capacity and thereby accumulate surplus-value. This presupposition will apply to any `growth model' under capitalism. Neo-marxism echoes the neo-classical economists who argued that an increase in capital is in the interest of both capitalist and worker, for an increase in capital means an increase of the working class and an improvement in their material conditions. This is the basic assumption underlying neo-marxism's technical treatment of the concept of a `growth model'. But Marx has shown that the interests of workers and capital are only the same in the sense that "capital and wage labour are two sides of one and the same relation...A noticeable increase in wages presupposes a rapid growth of productive capital" (Marx,1973:163). But, Marx notes, since both wages and profit come from the exploitation of the worker, "Profit rises to the extent that wages fall" and that "Even the most favourable situation for the working class, the most rapid possible growth of capital, however much it may improve the material existence of the worker, does not remove the antagonism between his interests and the interests of the bourgeoisie, the interests of the capitalists. Profit and wages remain as before in inverse proportion" (Marx,1973:166,167). The regulation theorists focus on distribution implies that if there is a bigger cake, capital and labour can both be better off. But the production of surplus value is a dynamic process of intensification of exploitation by the transformation of production relations. This does not simply mean investment and the introduction of new technology, but redundancy and the intensification of labour. If some workers gain in this, it is always at the expense of others.

The state as an instrument of capital

The theory of monopoly capital makes use of a conception of the state as the instrument of monopoly capital in the period of imperialism. This has encouraged a perspective on political transformation that, sees the working class leading a coalition of democratic forces in order to "free the state from this control and use it as an instrument in the transition to socialism."(Clarke,1977:2) But the capitalist state cannot be a neutral instrument in the transition towards socialism, nor is it simply an instrument of capital. This economic reductionism, that is a feature of neo-marxist thinking in South Africa, is based on the idea that the state is the locus in which particular capitalist interests are represented and in which they struggle for hegemony. It is the basis of the fractionalist struggle for state power. But instead of the state being located within the capitalist process of the production and accumulation of surplus-value, neo-marxism sees the state as the key determinant of this process of valorisation. This has important implications for the process of transition. The state, rather than the class struggle between capital and labour, becomes the key determinant of social transformation.

4.1 Class and state

In an effort to provide an alternative to economic determinism, neo-marxism differentiates between `classes' and `social classes': the former constituted at the level of production, and the latter, arising out of the social division of labour as a whole, including political and ideological relations. The assumption is that the concept of classes in the capitalist relations of production

does not embody (apart from productive relations, narrowly defined) political and ideological relations. `Social classes', furthermore, are defined principally by these political and ideological relations arising out of the division of labour in society. But classes are distinguished in the first instance from other social groups by being constituted on the basis of the capitalist social form of production and the production and appropriation of surplus value. Capitalism, rests upon the class-relation between capital and wage labour in which every capitalist is a `shareholder in the total social enterprise'(Marx). As capitalist production and accumulation continues, so, inevitably, the social power of capital grows. The class relation between labour and capital is the basis of the particular forms of economic, political and ideological relations assumed by the social relations of production.

What is important in Marx's analysis of social class is the method he employed to unravel its social significance. Marx's analysis is constantly informed by an awareness of concrete reality, historically determined and in a constant process of movement and development. Social class arises out of this dynamic process and is constantly being defined by this process. Class can only be defined in its motion. With the capitalist mode of production, classes are not only defined by social processes in motion, but also define themselves in dynamic relationship with each other: "Labour produces the conditions of its production in the form of capital, and capital produces labour, i.e. as wage-labour, as the means towards its realization as capital."[11] What this means, is that class cannot be seen merely as a coming together of individuals, but as a result of the social relations of production under capitalism as a whole. The capitalist relations of production create both the capitalist and the wage-labourer. The latter defines the former in a dynamic process, the reproduction of which depends on the constant re-creation of wage-labourers and their regulation by capital. The social classes that Marx

[11] Marx,K. (1979) pp.1061-2.

identifies emerge out of this process, are peculiar to it, and cannot be defined outside of it. This is illustrated in the `Poverty of Philosophy", where Marx makes an important point about his analysis of property which can also be applied to his analysis of social class: "In each historical epoch, property has developed differently and under a set of entirely different social relations. Thus to define bourgeois property is nothing else than to give an exposition of all the social relations of bourgeois production. To try to give a definition of property as an independent relation, a category apart, an abstract and eternal idea, can be nothing but an illusion of metaphysics and jurisprudence."[12]

The production of surplus-value, which is the function of capital, occurs because society has reached a definite, historically-evolved stage that makes this possible. Thus the process of value-creation and capital accumulation cannot be divorced from a particular set of historically evolved social relations, in particular, class relations: "...the capitalist process of production proceeds under definite material conditions, which are however, simultaneously the bearers of definite social relations entered into by individuals in

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[12] Quoted by Hal Draper in Karl Marx's theory of revolution, v.1 Monthly Review Press, New York & London, 1977 p.16.

the process of reproducing their life. These conditions, like these relations, are on the one hand prerequisites, on the other hand results and creations of the capitalist process of production; they are produced and reproduced by it" (Marx,1984:818-9). Furthermore, "The so-called distribution relations, then, correspond to and arise from historically determined specific social forms of the process of production and mutual relations entered into by men in the reproduction process of human life" (Ibid:861). Capitalist production and distribution, resting on the exploitation of labour and the accumulation of surplus-value by capitalists, is the basis of the social relations of production in all its forms - economic, political and ideological. In separating the economic from the political and ideological, and production from its distribution, neo-marxism departs from a fundamental aspect of the marxian analysis of capital.

The state

Marx emphasised in *Capital* that, "it is always the direct relationship of the owners of the conditions of production to the direct producers...which reveals the innermost secret, the hidden basis of the entire social structure, and with it the political form of the relations of sovereignty and dependence, in short, the corresponding specific form of the state."[13] In devaluing the importance of the contradictory relation between capital and labour, it becomes important for neo-marxism to find the theoretical basis for the form of the state in the struggles between the fractions of capital for hegemony within the state. These struggles appear to be primarily limited to the political/ideological levels. With the absence of a concept of `total social capital', neo-marxism is not able adequately to explain the fractional interests of particular capitals and the extent to which such interests may be satisfied, for there is no concept of `capital-in-general' separate from the state itself. The state, then, becomes important in the neo-marxist analysis for in the absence of a concept of total social capital, it becomes the only social institution able to represent capital-in-general, the unity of the individual capitalists in society.

The marxian concept of total social capital is crucial to its analysis of the capitalist state, the social

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[13] Ibid, p.791. To avoid reductionism, Marx qualifies this statement: "This does not prevent the same economic basis...due to inumerable different empirical circumstances, natural environment, racial relations, external historical influences, etc. from sharing infinite variations and gradations in appearance, which can be ascertained only by analysis of the empirically given circumstances." (pp.791-2)

relations between capital and labour and the relationship between particular capitalists. At the end of the day, the individual capitalist is only really concerned over the extent of the surplus-value generated in relation to the total capital advanced. While the source of this excess value lies in the immediate process of production, its realisation is shaped in the process of circulation by the market and through competition with other capitalists. This led Marx to the conclusion that: "The value of every commodity - thus also of the commodities making up the capital - is determined not by the necessary labour-time contained in it, but by the *social* labour-time required for its reproduction" (Marx, 1984:141).[14] Marx's concept of social labour-time is an important component of his theory of social class. The capitalists, he argues, "do not secure the surplus-value, and consequently the profit, created in their own sphere by the production of these commodities. What they secure is only as much surplus-value, and hence profits, as falls, when uniformly distributed, to the share of every aliquot part of the total social capital from the total social surplus-value, or profit, produced in a given time by

[14] Consequently, Marx shows, there is a tendency for the rates of profit in the various branches of production to be equalised by competition to a single average rate of profit.

the social capital in all spheres of production" (Marx,1984:158).

With a given rate of exploitation, the total surplus-value generated in a given sphere of production becomes more important for its contribution to the aggregate average profit of social capital, and therefore to the capitalist class in general, than for the individual capitalist. "In this form", argues Marx, "capital becomes conscious of itself as a social power in which every capitalist participates proportionally to his share in the total social capital" (Marx,1984:195). In this way, it can be said that the individual capitalist and the capitalist class as a whole, participates directly in the exploitation of the working class as a whole. What is important, is that this is done not merely for the sake of class solidarity (the identification among capitalists that they share a common interest) but also for direct economic reasons - since the very existence of the individual capitalist and the social class to which he belongs, depends on the generation of profit through the exploitation of the working class as a whole.

Capitalist production as a whole then, for its continuous reproduction, generates its own universal drive to create the conditions for expanding the capitalist mode of production and to revolutionize the means of production in its drive to constantly increase the rate of profit. The individual capitalist, in order to compete with other individual capitalists for a greater piece of the pie i.e. the total social profit, has to constantly improve the productivity of its labour, for on this depends the rate of profit and, subsequently, the share of the total surplus profit. This, to Marx explains why "capitalists form a veritable freemason society vis-a-vis the whole working-class, while there is little love lost between them in competition among themselves." (Marx,1984;p.198) Notwithstanding inter-capitalist rivalry, Marx made it clear that this unity itself rests on a more fundamental social process, that of the contradiction between capital and labour, the social basis of the unity the capitalists share amongst themselves in relation to the exploitation of the working class.

The limits of capital

It is not the state "which organises capitalist exchanges and provides the real framework of cohesion in which commercial encounters can take place", as Poulantzas believed (Poulantzas,1973:53). The basis for this is provided by capital itself. Under capitalism, the wages of the labourer are limited by the value of his/her labour power; the profits of the capitalist, by the extent to which surplus value can be extracted on his/her (the workers') labour. These are the real limits of capital and what determines the total social product.

It is a feature of the neo-marxist conception of the state, that the state plays a principle role in the determination of value. Thus, intercapitalist competition is seen to play a central role in the determination of state power. The separation of social class from production is followed by the separation of the production of surplus value from its distribution. The former takes place in the `economy' and the latter, at the `political' level, through the `state'. This approach, is however, unable to explain the processes that restrict the ability of the state to intervene in the process of capital accumulation in favour of a particular fractional interest.

The form and the policies of the state are seen essentially as the result of the struggle between fractions of capital rather than the struggle between capital and labour. This is why, in neo-marxist discourse, the working class tends to be treated as the object of state policies, while the state itself (in relation to the working class) is regarded as all-powerful with almost limitless resources.

Neo-marxism and the development of SA capitalism

What then are the consequences of the neo-marxist account of the development of capitalism in South Africa?

Firstly, with fractional analysis, the emergence of the apartheid state is explained historically and analytically not as the consequence of a process of class struggle between capital and labour, but rather as the consequence of the struggles between fractions of capital. Secondly, the lack of a marxian concept of social relations, has resulted in the separation of the economic crisis from the political crisis. This means that a resolution of the economic crisis, is treated as a technical and politically neutral problem, which need only be resolved with the "correct" economic policies. Finally, neo-marxism, presenting itself as an alternative to the liberal accounts of apartheid, ultimately amounts to an explanation of the rise of apartheid not fundamentally different from these liberal accounts:"Because they base themselves at the level of appearances, because their analysis does not penetrate the political level to reveal it as the political form of more fundamental class relations, the fractionalist accounts quite unconsciously, but also quite inevitably, came to reproduce the standard liberal accounts of the development of Apartheid with which the contributions of Wolpe, Legassick and Williams originally broke" (Clarke,1978:51).

Crisis and reform

Fractionalist analysis continues to be employed by neo-marxism to provide a theoretical explanation for the intensification of the economic and political crisis that came to a head in the late seventies, and the reforms introduced by the apartheid state. Thus, the assertion by Morris and Padayachee (1988:1) that the crisis in South Africa arose from, "a variety of contradictions and conflicts within capital and between the state and popular classes". The theoretical explanation for the crisis of apartheid, is treated in the same manner as the neo-marxists dealt with the origins and development of apartheid. It is important to note first of all, that the `variety of contradictions and conflicts' are given equal weight. Secondly, they are divided into only two aspects: contradictions and conflicts

1.within the state; and

2.between the state and the popular classes.

The former follows from the neo-marxist emphasis on inter-capitalist, `fractional' struggles for hegemony of the state. The second arises out of the neo-marxist tendency to over-politicisation. The state is the arena of political struggle. The relationship of the popular classes and the state, is limited to the `political'. Finally, and very significantly, the contradictions between capital and labour, as in earlier neo-marxist accounts, are absent from the analysis.

Neo-marxism adopted the Poulantzian variant of structural analysis to encompass Aglietta's concept of `social structure of accumulation'. As Aglietta puts it, the study of capitalist regulation, "is the study of the transformation of social relations as it creates new forms that are both economic and non-economic, that are organized in structures and themselves reproduce a determinant structure, the mode of production" (Aglietta, 1979:16).[15] Unlike the SA neo-marxists, Aglietta's analysis sought to put class struggle at the centre of his theoretical concerns. He intended regulation theory to "elucidate the general lesson of historical materialism: the development of the forces of production under the effect of the class struggle, the transformation of the conditions of this struggle and the forms in which it is embodied under the effect of that development" (Aglietta, 1979:16). However, regulation theory as such has tended towards structural functionalism (Lipietz) and, in the case of the SA regulationists, to undervalue the importance of the class struggle between capital and labour. The class forces that shape the `social structure of accumulation' according to Morris and Padayachee (1988) are the `class forces *within the state*'. By this is meant those fractions of capital vying for hegemonic control of the

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[15] Aglietta was a student of Poulantzas and part of the project to `operationalise' Poulantzian theory.

power bloc. The working class appears to play no direct role in this process.

The scenario being sketched is of state and capital `free' to do what they choose without any limitations or constraints. Every `structural' re-adjustment appears to be the result of a unilateral decision taken voluntarily and changeable at will. The historical actions taken by the working class against capital and the state, are treated merely as matters to be `taken into consideration' when making strategic adjustments. Thus "by the early 1980's, the new (reform) initiative was building up as state planners took cogniscence of the structural and conjunctural tendencies occuring in society" (Morris and Padayachee, 1988:9). The state's "surprising ability to engage in social, administrative and ideological experimentation", in the wake of popular resistance, is the explanation provided by the authors for the reform process.

The reform agenda is determined by the state, which is regarded by neo-marxism as the locus of the `political instance'. It is here where different fractions of capital are engaged in class struggle to determine the form of the state and, in a situation of crisis, or `turning-point', the dominant fraction determines the nature of the re-adjustment and the choice of the growth model in order to `regulate' the system for another period of stable capitalist accumulation. So the key concern still remains the contestations of class fractions for this determines the character, pace and agenda of the reform process.

The application of fractional analysis to the reform process, in combination with the separation of `politics' from `economics', have produced a technicist analysis of economic aspects of the social crisis in SA. It is this theoretical orientation that has made it possible for neo-marxist reform theorists to argue that the economic crisis in SA can be resolved by the simple choice of a correct `growth model'.

The choice of an alternative growth model also comes at a particular historical moment (or, as the regulationists prefer, a turning-point) when, "the capitalist economy cannot continue to develop in the same form and along the same path as before. The existing growth model...has begun to decay, and a resumption of sustained accumulation requires the emergence of a new growth model" (Gelb,1991: 2). A growth model is defined as a `combination of patterns of production, distribution and consumption', yet neo-marxism offers no clear perspective on the relationship between the three, and subsequently provides an inadequate theoretical analysis of the reform process.

Both Gelb(1990) and Kaplinski(1990) argue for a growth model based on the redistribution of incomes and wealth in contrast to an export-orientated growth model. The preferred model for the neo-marxists, `growth through redistribution', is seen as the growth path likely to be more successful in achieving growth, that is, with a greater ability to resolve the economic crisis by regulating the economy and ensuring future capital accumulation.

The key issue here is that the crisis is defined as a `turning-point' which requires a new mode of regulation, in contrast to the marxist notion of `crisis' as a permanent feature of the capitalist mode of production based on the irreconcilability of the contradictions between capital and labour, demanding a revolutionary transformation of capitalist social relations. In contrast, the neo-marxist growth model is unashamedly capitalist in its orientation and seeks a reformist solution to the crisis facing SA capitalism. In this sense, there are no fundamental differences between the two growth models. The differences are of degree, rather than substance. The fact that neo-marxism presents them as alternatives, can only imply that an anti-capitalist solution to the crisis is not regarded as an option. Indeed, `growth through redistribution' has correctly been defined by a critic as a policy of `managed capitalism', employing labour-intensive production methods with "a new investment programme directed by the state and aimed at producing mass consumption goods for a local market of low- and middle-income people" (Bond,1991:31-32). With its emphasis on both growth and redistribution, the neo-marxist accumulation strategy hopes to appeal to both capital and the masses. By distinguishing capital accumulation under apartheid with a post-apartheid accumulation strategy, without a theory of the transformation of social relations, serves to reinforce bourgeois social relations, reproduces a technicist approach to the `economy' and serves the rhetorical purpose of presenting the growth model to the masses as a real alternative.

What the neo-marxists ignore is that the state, as an institutional form of social relations in society, is subordinate to capital because the social relations within which the state exists are themselves defined by capital. Consequently, `politics' and `economics' are different forms of the same social relations. The state, therefore, "cannot deal separately with the economic and political crises that it confronts for they are two forms of the same crisis" (Clarke, 1978:72). If a crisis occurs in the accumulation of surplus-value, the state cannot remain aloof for it is itself an object of struggle. For this reason, the obstacles in the way of capitalist accumulation in South Africa, cannot simply be treated as an `economic' crisis, (that can be `resolved' through a new `growth model') but rather, it is

" a *social* crisis, a crisis of the struggle over the reproduction of capitalist relations of production, which includes inseparably a political struggle over the institutional form and the policies and practices of the state" (Clarke, 1990/91:464 - my emphasis).

The crisis in South Africa has its roots in an imbalance between the different departments of social reproduction.
As I see it, a key deficiency of the ANC/COSATU economic policy for a post-apartheid South Africa is that the policies do not take sufficient account of the consequences of the relative backwardness of South African production in all branches of production. For a time production was sustained by the natural advantages, viz. minerals and agriculture. Mining and agriculture dictated the form of integration into the world economy, but could not sustain relatively backward manufacture for ever. The crisis was exacerbated by worker resistance and sanctions. Low productivity led to low wages and inflation. The crisis demanded the restructuring of manufacture in accordance with global integration, mediated by the financial sector.

Neo-marxism acknowledges the connection between the SA crisis and that of the crisis of world capitalism, but tends to focus on local i.e. national conditions, for they argue, this shapes the particular way in which the crisis unfolds. Gelb (1987:46) argues that, " the form of the crisis - the precise process of its development, its differential impact, depth and length - are a consequence of local patterns of accumulation and policy processes". The logic of this approach, and, subsequently, the whole focus of the ANC/COSATU economic planning, is the emphasis on the role of the state in resolving the economic and political crisis. "There seems to be no other way", writes Gelb, "in which a quite fundamental shift of direction in economic development could be brought about except by using the capacities of the state as a counterweight to the reluctant and extremely powerful private economic agents" (Gelb, 1990:34, emphasis added).[16]

The heavy dependence of the SA economy on the mining industry has led to attempts to diversify the economic base in order to reduce this dependence and strengthen the resilience of the economy to the fluctuations in world trade. With the rapid proletarianisation of the black population, manufacturing also served the purpose of social control. Accompanying the growth of manufacturing was the integration of a system of racial

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[16] See also, ANC/COSATU `Recommendations on Post-apartheid Economic Policy': "Within the context of a mixed economy the democratic non-racial state would assume the leading role in the reconstruction of the economy in order to facilitate the realisation of its developmental objectives." in Transformation no.12 June 1990 p.3.

differentiation in the workplace. The integration and development of the apartheid system depended on manufacturing facilitating the process of social control and discipline of the working class. The particular process of class domination that SA is notorious for and which suited the capitalist class in general, created the seeds of the crisis which the ruling class is now being confronted with. Years of repression have forged a particularly combative working class, with strong proletarian traditions of organisation and militant action, able to strip away the illusions of the bourgeois wage form, and see the problems they face within a particular factory, for example, as not a problem solely with their own bosses, but a result of a whole system of oppression and exploitation. Apartheid has ensured that every feature of the social relations of production, despite the ideology of `free enterprise', was so permeated with the features of ruling class oppression, that workers were not so easily able, as perhaps their European or American counterparts were, to separate `bread' from `politics'. Every workplace has become a frontier where the struggle between capital and labour is fought out, though unevenly and often localised, but fought out nevertheless, in all its ramifications.

The domination of the labour-intensive extractive industry in the economy and the deliberate system of under-education of the black population have created a situation, where, upon discovering in the 1960's that it could no longer compete on the world market on the basis of cheap labour, SA was not able to embark on a programme of capital intensification rapidly enough in order to enter, on a competitive basis, the world market in manufactured goods. This was a consequence of 1. its under-skilled wage-labour, 2. the growing organisation and militancy of the working class in response to the introduction of new technology and the redundancies that accompanied it and 3. the relative shortage of capital in the face of the demands of mining and agriculture and infrastructural developments.

Restructuring social relations in manufacturing production, in order to increase the rate of exploitation, inevitably provokes the intensification of class struggle in its political form. It is for this reason, according to Clarke(1978:71), that "The fundamental economic crisis is not, however, a monetary crisis but is a crisis in the social relations of production". The question is whether these social relations are capable of being changed significantly to resolve the social crisis. To the regulationists this is largely a matter of finding the correct growth path for a return to a high rate of accumulation.[17] But,

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[17] Gelb,S. `Democratising economic growth: crisis and growth models for the future', in Transformation no 12 June 1990 pp.32-33

fundamentally, the social crisis will remain unresolved until it becomes possible through the democratic self-organisation of the working class and its allies to find a socialist alternative to oppression and exploitation in South Africa.

The essential political contribution of neo-marxism to the political struggle in SA is to provide a bridge to link reformist and revolutionary tendencies in the mass movement. In the process, neo-marxism has blurred the distinction between the two and therefore made it possible, in a situation of intense class struggle, for social democratic ideology , with its emphasis on class collaboration, to penetrate into the political programmes and policy-making processes of left political organisations in South Africa.

The social basis for this has been on the agenda of capital for some time. Given the crisis of apartheid South Africa, "Capital simply wants to save capitalism and the broad perception within the ranks of big business is that in order to achieve this objective, capital must not only distance itself from apartheid, it must also take active steps to undermine it. This provides the common ground between monopoly capital and the traditional participants in the anti-apartheid struggle" (Lewis,1986:86).

Stripped of its gloss, the neo-marxist solution to the social crisis through a `growth through redistribution' model amounts to one of the many capitalist solutions for post-apartheid South Africa. Yet the left proponents of regulation theory are regarded as participants in a left discourse for a *socialist alternative* to the crisis-ridden political economy of apartheid South Africa. It is clearly imperative therefore, to disentangle capitalist from socialist solutions to the SA crisis. A necessary part of this process is the critique of neo-marxism itself.

The South African crisis and the restructuring of the state

Historically, South African domestic capital had developed a highly interventionist and distributive state. This had been possible because of the natural advantages of mining and agriculture, cheap labour and its integration into the world economy.

Despite the predominance of the primary sector, South Africa was forced to develop its manufacturing base. `Poor whites' displaced by agriculture and a rising urban population of black workers, put pressure on the state to develop manufacture.

In order to initiate such a development, the intervention of the state was critical. As a result, manufacturing and infrastructural development was heavily subsidised, directly and indirectly, by the state.

The structural imbalances at the root of the SA crisis are the outcome of specific class developments. At first, from 1950 to the early 1960's, manufacture developed very successfully within the interventionist framework. But the economy faced deepening crisis as its favourable global position was undermined and the demands of black workers escalated. At first the state responded on the basis of its form, i.e. by intervening and spending more to overcome immediate pressures. But this only deepened both the economic and political crisis. Responding to the crisis required a fundamental restructuring in the relationship between capital and the state in order to subject both the state and individual capitals to the rule of capital and thereby depoliticise economic policy. This involved the liberalisation and restructuring of the financial institutions and the development of more abstract instruments of control. One of the tasks of the De Kock Commission into the monetary system and monetary policy was to formulate such instruments. But tensions arose in government between the need to respond to immediate pressure in order to stabilise economic and political conditions and the need for fundamental restructuring. Restructuring of the financial system can subject capital and state to the rule of capital, but cannot determine their response. If capital does not invest and the state does not cut its spending, the crisis deepens. The determining moment at every stage is not the economic or financial developments as such, but class struggle.

CHAPTER THREE

The post-Sharpville boom and its limitations: South Africa as a primary producer.

The rapid industrial expansion which occurred in South Africa in the 1960's was a seminal period in its history. Its significance lies, on the one hand, in manifesting the economic and political developments which preceded it and which defined the qualitative and quantitative character of the boom and, on the other hand, in revealing, during the course of its demise in the early seventies, the nature of the crisis of capital accumulation in South Africa.

The historical forms of capital accumulation as it evolved in South Africa, were the consequences primarily of colonial conquest and subjugation. Under British colonial rule specifically, the social framework was laid to reinforce a system of production and accumulation orientated towards a dependent relationship with the colonial power in which SA supplied Britain with primary products and imported British manufactured goods. It is this colonial relationship which has also shaped SA's location within the global system of capitalist accumulation. South Africa's role as a supplier of primary products was specifically reinforced by the availability of abundant supplies of mineral deposits, particularly gold, coal and diamonds which could be mined economically.

The mining industry, particularly the production and distribution of gold, ensured SA a particular place in the global economy. This predominance of mining in the economy has meant that capitalist production in SA is marked by a particular relationship between the branches of production, in which the predominance of primary production in the economy has resulted in a structural imbalance in the departments of production in which the production of the means of production (capital goods production) remains uneven and relatively undeveloped. This structural imbalance has continued despite the expansion of manufacture particularly in the 1960's and it remained a fundamental source of the crisis of capital accumulation, imposing structural limits on the attempts at financial restructuring in the late 1970's and 1980's, revealed through rising inflation and a chronic balance of payments deficit. The monetary form of this crisis and the attempts at financial restructuring by the state to overcome the problems arising from this structural imbalance, is analysed more closely in chapters 5 to 9 below. The purpose of this chapter is threefold: firstly, to trace the path of the development of capitalism in SA which led to the manufacturing boom in the sixties; secondly, to analyse the nature of the boom; and thirdly, to consider the ways in which the boom revealed the financial crisis facing capitalism in South Africa.

1. The development of manufacturing in South Africa

The development of the manufacturing sector is crucial to our understanding of the crisis in social relations of production which became manifest particularly from the late sixties onwards. In a recent study of the manufacturing sector (Black, 1991) the central importance of this sector for understanding the crisis in South Africa was demonstrated. Black argues that "Not only is manufacturing responsible for major contributions in terms of output and employment, but it provided a key expansionary stimulus for the economy during much of the post-war period" (Black, 1991:156)

The key to the development of manufacturing lies in the predominance of mining in the South African economy. The expansion of mining, particularly in the 1930's, provided the need for a market for manufactured goods at first to service the particular needs of the mining

industry. The emergence of a manufacturing sector linked to mining soon gained importance throughout the economy and stimulated a wider, more nationally integrated manufacturing industry.
These developments occurred at a time when the post-war international economy was growing rapidly and commodity prices were rising, favourable conditions for the SA economy, dominated by primary exports.

The SA state had already followed a systematic policy in favour of industrialisation from the 1920's. One pillar of this policy was tariff protection to stimulate import substitution. Another was the establishment of parastatal corporations (Iscor, Eskom and Sasol) and, as the Industrial Development Corporation, in joint ventures with private capital. Furthermore, the `civilised labour policy' which allowed more favourable conditions for white workers, was an intrinsic part of the state industrial policy. This initiative by the state to provide a legal and political framework for the development of an internal manufacturing industry has played an important role in the way the industry developed. It had particular implications for the changing relationships of state, labour and capital. State industrial strategy in the beginning was aimed at unifying a divided manufacturing base.

According to Mabin(1989:81), what was distinctive of manufacturing in its early phase, was

"The unintegrated structure of different sectors of early South African industry...the absence of national integration. Each sector was relatively isolated and differences in industrial speciality, labour force recruitment sources, wage rates and cost structures were very substantial." The struggle to unify the industry was boosted when the price of gold rose in response to SA abandoning the gold standard in 1933. The rise in the gold price made possible further expansion of the mining industry. Mining expansion in turn boosted engineering production. By 1937, according to Freund(1989) local production of steel comprised a third of total consumption. Further expansion during the second world war included significant development in the production of consumer goods. As a consequence, engineering production acquired a central importance in the industrial structure. This, in turn promoted the industrial integration of the national economy - despite its predominance in the Witwatersrand industrial zone.

Rising profitability in the 1930's attracted the investment of the mining finance houses and foreign investors enabling an increase in the scale of production with a proportionate increase in industrial workers and the differentiation of the workers in terms of skills. By the end of the war, more than half of the industrial workers were black males in an industry which historically had employed mainly white workers and despite the near doubling of white workers from 1933 (Freund,1989).

This transformation in the racial composition of the industrial working class had important implications for capital, labour and the state. The declining ability of the reserves to subsidise some of the costs for the reproduction of unskilled black labour-power to work in the mining industry created a structural crisis which propelled the state into direct involvement in its reproduction. In this respect, the regulation and administration of labour - primarily black labour - was crucial. The system of the job colour bar which ensured a racial division of the working class, served to keep the value of labour-power as low as possible. This was important for the economic exploitation of the mining deposits: "The geology of the Witwatersrand mines, with low-grade ore, thinly and unevenly spread along a wide surface and at great depth, required elaborate, expensive structures for deep-level mining...and meant that much drilling and blasting had to be done by hand. They therefore required huge amounts of both capital and labour" (Lipton,1986:111).

The system of segregation, then, was important to sustain the profitibility of the mining industry. But it also had a wider significance in ensuring the hegemony of capitalist social relations at all levels of South African society.

The struggle to impose capitalist social relations in a planned, systematic manner was a feature of state policy during the Smuts government and continued to be a part of state policy with the ascendency of the Nationalist Party to power in 1948. The argument of the Board of Trade and Industries in 1945, that "The extension of manufacturing industry can be stimulated through a reduction in the high cost structure through increased mechanisation so as to derive the full benefit of the large resources of comparatively low-paid non-European labour" (Legassick,1982:473), was largely supported by the newly elected Nationalist government after 1948. Furthermore, the imposition of racially allocated work roles (the job colour bar) was, on the whole, applied flexibly to serve the changing needs of production.

Apartheid policy continued to extend forms of regulation of labour to serve the specific (and changing) interests of capital. The regulation of labour-power is achieved by the imposition of political controls over the working class which strive to ensure the continued supply of labour of the quantity and quality required for the specific needs of the various branches of production.

In the case of manufacturing, the regulation of labour-power to serve this industry required specific political conditions different from that required in the mining

industry - an issue much deliberated upon by a contemporary commission:
"Can we develop our industries when we have the position that the native only works for a few months and then returns to the reserves for a couple of years? No the native must be trained for his work in industry, and to become an efficient industrial worker he must be a permanent industrial worker. On that account he must live near his place of employment." But this also poses new political dangers for the state: "Unless handled with a great foresight and skill these masses of detribalized Natives can very easily develop into a menace rather than a constructive factor in industry...the whole problem calls for vision and statesmanlike guidance" (Ibid:478).
These remarks reveal an insight into the potential dangers for capital and the state of the proletarianisation of the disenfranchised black population.

The growing insignificance of white unskilled workers and the rise in the employment of black semi-skilled workers in the manufacturing sector was a feature of the significant transformations which had taken place in capitalist production in SA in the forties and fifties and which were to expose, in the sixties, the contradictory character of capital accumulation in SA.
"Industry saw its future in consolidation and capital investment in integrated, expanded and in some respects

deskilled, mass production and there could be little doubt that most of the relevant `semi-skilled' workforce would necessarily be African" (Freund,1989:102). "It is easy to think that industry was concerned simply with the question of the African's cheapness; it was not. More to the point was the sheer inadequacy of the size of the white labour force to power substantial growth and capital's capacity to restructure labour processes so as to bring blacks in without actually confronting white wrath or fears" (Ibid:102-3). Freund's analysis of the historical development of manufacture came to the conclusion that, "When the state...attempted actually to shape the character of the labour force in line with segregation policies...it was not so successful and indeed in the end, the state accepted the logic of capital in secondary industry in shaping specific economic measures" (Ibid,104) However, the `logic of capital' is rooted in the social relations of production as a whole, encompassing economic and political aspects in contradictory unity and not merely in the `economic' as Freund's analysis suggests. It was in response to growing class struggle that the Nationalist government sought to impose through the exercise of state power its particular kind of centralised authority. In this respect, the expansion of manufacturing enterprises and the movement towards national integration of manufacturing capital played an important role in asserting the command of capital and the state over an increasingly proletarianised population.

2. Manufacture to the rescue of apartheid ?

The industrial boom saw major developments in manufacturing and financial capital. Manufacturing output increased by 70% in five years (R1 billion in 1960 to R1.7 billion in 1965). Transformations in the monetary and banking system were a necesssary consequence of this process of industrial expansion. The boom intensified demands for black labour. Levels of employment and productivity rose with increasing capital-intensity made possible by the importation of machinery and equipment. Although the wages of black workers rose only minimally, the economy expanded rapidly throughout the sixties. With increased local production of durable consumer goods, manufacturing output reached high levels. Using Reserve Bank statistics, Black (1991:157) provides the following illustration of the growth in manufacturing from 1946 to 1975:

Table 1: **Gross domestic product and manufacturing growth**

	Average rate of growth per annum		
	Output(%)	**Employment(%)**	**Total GDP(%)**
1946-1950	9.1	6.6	4.7
1950-1955	7.5	3.0	4.8
1955-1960	4.5	0.9	4.0
1960-1965	9.9	6.8	6.0
1965-1970	7.4	3.2	5.4
1970-1975	6.0	4.1	4.0

The industrial boom in the early sixties came in the wake of the political defeat of the black working class and the suppression of the trade union movement. This defeat of the mass movement cleared the way for the restructuring and modernisation of capital accumulation in order to overcome the contradictions and crisies arising from the social relations of production on which Verwoedian segregation policies depended.

The growth in manufacturing was necessary to diversify the industrial base and reduce the dependence on primary production, which is very vulnerable to movements in world trade prices. The mining industry in particular, mindful of the limited life-expectancy of the extractive industry, the rising cost of imported heavy industrial machinery and the inability of the local manufacturing industry to service these needs, invested in manufacture and other non-mining sectors. The inflow of foreign capital after Sharpville, encouraged by mining capital's investment in manufacture, played an important role in financing this development.

To the apartheid state, the growth of manufacturing was important as a means of social control. It enabled the extension and rationalisation of the system of regimentation and control of the black working class in industries outside of mining and agriculture. It made possible the modernisation of the system of labour control at a time when the black population became increasingly proletarianised. By ensuring the subordination of these workers under the command of capital, the state was also securing its domination over the proletariat. This was necessary in order to facilitate the effective production of surplus value by the coordination and allocation of the available labour power between industrial sectors. Labour control under apartheid is "a diversified system of control designed to allocate labour to the various sectors on terms that were consistent with the level of development of the productive forces, which was very uneven between sectors, and as a system that could clearly differentiate between those workers on whom the discipline of (wage)-labour could be imposed and those who would be more directly and immediately subject to state control" (Clarke,1978:69) This strategy of labour control, aimed at intensifying capital accumulation and the expansion of manufacturing, was made easier by the political defeat of the black working class after Sharpville. Industrial expansion could then occur under conditions in which the working class posed no significant barrier to the strategies employed by capital and the state.

Verwoedian segregation policies were based on a constant supply of unskilled contract labour drawn from the reserves. This labour supply was particularly suited to the requirements of mining and agriculture. But the development of manufacturing industry - a feature of the post-Sharpville boom - required more stable, skilled and available labour drawn from the metropolitan areas. The industrial boom saw a dramatic increase in productivity and levels of employment (the employment of black workers, in particular) in manufacturing. Towards the second half of the decade, the installation of large-scale capital equipment was the main source of this increase in productivity - a feature that was to reveal the contradictory nature of the sixties boom: "While the capital-intensive character of the boom was made possible through the importation of machinery and equipment, there was no corresponding rise in the value of exports and consequently a large deficit built up on the balance of payments, which eventually forced the state to slow the economy down" (Innes,1984:190) The rising deficit on the balance of payments forced the SA economy into recession. The growing movement of trade union resistance, accompanied by recessionary conditions in the world economy, ensured the prolongation of the recession in SA throughout most of the seventies.

Manufacture and the organisation of labour

The sixties boom revealed the limitations of capital accumulation in SA. The success of the strategic shift towards manufacture depended on a rise in manufacturing exports instead of it remaining a liability on the balance of payments. This did not happen. Instead manufacturing remained stagnant, becoming, instead, increasingly vulnerable to foreign competition in the domestic market. SA remained uncompetitive in the world market for manufactured goods. Despite the efforts to control labour, South African labour remained relatively more expensive with lower productivity. Consequently, it was thought that international competitivity would be improved with increased capital intensitivity and a more skilled workforce. But, this step created its own counter-tendencies, as Clarke confirms: "the very process of the introduction of modern technology created the conditions under which the `indiscipline' of the working class would begin to manifest itself in an organised form, for the introduction of the new technology meant changes in the imposition of the rule of capital at the point of production, on the one hand, and the creation of large-scale redundency, on the other" (Clarke,1972:70) These counter-tendencies came into conflict with the `barriers' of state policy.

The Verwoedian response to these pressures was limited to labour control measures conforming to the grand designs of apartheid: colour bar, influx control, bantustan strategy and the decentralisation of labour intensive industries to areas outside the main metropolitan centres and near the bantustans, traditional sources of cheap and available labour. While the process of proletarianisation could not be reversed, everything needed to be done to keep black workers out of the metropolitan centres. The metropolitan areas would be reserved for capital-intensive production, less dependent on black (unskilled) labour. But the manufacturing boom intensified the demand for black labour at all skill levels. The fixed capital stock between 1946 and 1970 at constant prices rose from R204million to R938million, almost doubling the capital-labour ratio, increasing the need for skilled and semi-skilled workers. At the same time, the supply of available white skilled labour did not rise accordingly (Lipton).

A slight concession was made to the colour bar, making its application more flexible by fragmenting and reclassifying certain jobs traditionally reserved for white workers. At the same time a concerted effort was initiated to attract skilled (white) workers from Europe. Rising demand for skilled and semi-skilled workers raised labour costs while the priviledged conditions of white skilled workers had a negative effect on productivity. On the other hand, barriers to the advance of black workers continued to remain a disincentive to the intensification of work: "The lack of competition for white workers led to slackness on the job, high turnover and absenteeism, while the barrier to job advance was a disincentive to hard work, motivation and commitment among blacks. Inadequate education, poor living conditions and insecurity contributed to low black efficiency" (Lipton,1986:145) As the boom intensified the shortage of skilled labour, so, increasingly, capital mobilised against state policy on labour control, seeing it as a barrier to the expansion of production and capital accumulation.[1] Increasing capital-intensity also put great pressure on the need to expand the domestic market: "The higher the proportion of fixed or capital costs to total costs the sharper the fall in costs per unit - and in South Africa it is the capital intensive industries which have to be most

[1] This opposition culminated in 1970 with capital opposing the 1970 Bantu Laws Amendment Act which aimed to extend job reservation. Increasing opposition eventually resulted in 1973 with a shift in policy allowing black workers to do skilled work in white areas.

expanded if the surge towards industrial activity is to be maintained" (Torchia,1988:424). While capital, in particular manufacturing capital, continued to agitate for reform in labour policy, popular mobilisation against the apartheid state and the growing signs of worker militancy and organisation was a constant reminder to state and capital of the likelihood of impending crisis and the urgency of maintaining the initiative less it gets taken in the streets and factories.

State response to working class pressure

The Verwoedian response to pressure from below was limited to rationalising and extending state control of labour. This, it was assumed, would be in the interest of capital. But controlling and regimenting labour necessitated an extensive bureaucratic organisation which proved too cumbersome and inflexible. Although big corporations were able to compensate for this by setting up alternative labour recruitment and distribution networks within their own corporations, political pressure against these controls was a powerful component of mass resistance, and consequently, featured strongly in the relationship between capital and labour at the point of production. In this way, the burgeoning trade union movement was able to shape state-capital relations by forcing capital to confront the state's strategies with respect to the controls imposed on black labour. In this way also, labour was defining their interests `in-and-against' the state, thus placing further limitations on the strategies and tactics of the apartheid state. While it became increasingly clear that further continuation of the Verwoedian strategy would not resolve the problem, the state remained cautious of any reform that would threaten the basis of its own power. Thus the Riekert Commission's observation that while the labour control measures had had a negative effect on economic activity, "the price to be paid for (the abolition of labour control) in terms of direct and indirect social costs would be too high" (Lipton,1986:152).

Section 3 of the 1967 Physical Planning Act enforced a policy of industrial decentralisation. Within certain industries relying on labour-intensive production, particularly in the Pretoria-Witwatersrand-Vaal and Western Cape industrial areas (where restrictions applied on the location and expansion of industries), this was a major source of conflict with the state. These two areas accounted for 2/3rds of employment and industrial output. Intense competition, which fueled the pressure for expansion and employment, simply led to widespread disregard of legal controls. Despite this, state policy was pursued with determination, as reflected in a statement made by Jan Haak, Minister of

Economic Affairs in 1970: "We must accept that the days of uncontrolled influx of Bantu labour into the metropolitan areas are gone forever...the decentralisation policy would be pursued even if it involves a sacrifice in the overall economic performance" (Ibid:154). Capital's incentive to campaign against state regulation of black labour and the living conditions of workers which accompanies these regulations arose from the belief that average labour costs would decrease and productivity would rise with the reduction in state regulation and the improvement in living standards. Capital was not, on the whole, persuaded by the incentive schemes encouraging decentralisation. They feared industrial unrest as a result of low wages in such areas, political upheavels arising from the policies of the bantustans and economic fragmentation. Sections of industrial capital preferred a settled and permanent urban labour force in order to facilitate increased productivity and the investment of resources in the training of skilled and semi-skilled workers. No doubt, capital was also motivated by the need to nurture the local market, in which black consumers hold the key to potential future expansion: " From the viewpoint of sales, it is absolutely clear that the non-white urban population of South africa constitutes a vital market. This is the real mass market of South Africa and no manufacturer... can survive in the future unless he obtains a significant and growing share of the non-whites' purchasing power" (ibid:425). But it was to be the deliberate action of organised labour in 1973 and 1976 that would prove to be the decisive acts that were to propel both capital and the state to confront directly the class agenda asserted by labour.

import substitution

The path of post-war industrial development in SA was strongly directed by the state policy of import-substitution. But this policy was based on supplying a narrow market of mainly white consumers with consumer durables. As a result the development and expansion of manufacturing was mainly dependent on growth in the internal consumer market and the extent to which imported goods were replaced by locally manufactured products. The structural weaknesses which beset the manufacturing industry and which limited its potential for growth arose from its dependence on imported parts and equipment, the low level of exports and the extremely skewed income distribution in the population, limiting the development of a sufficiently broad mass market and encouraging the premature expansion of the market for sophisticated durable consumer goods. As a result, the manufacturing industry remains a net importer dependent for expansion on capital inflows or from funds generated by the export of primary products. Despite the policy of import-substitution, "overall import-intensity (imports/GDP) has not changed since the 1920's and imports still accounted for as much as 24 per cent of GDP in the period 1980-84" (Black,1991:161) According to Black, what has happened instead is that the importation of consumer goods has been significantly reduced, but, at the expense of increased imports of capital goods and continued dependence on foreign technology. Domestic manufacturing has not been able to improve its export performance significantly. "For the manufacturing sector as a whole, the high costs and inefficiencies generated by South Africa's particular form of import-substituting industrialisation have worked against any competitiveness on international markets...Tafiff protection...uncertainties about exchange rate fluctuations and sanctions have also led to a situation where in spite of the weak rand there has been little new investment in export-oriented production" (Ibid:162) The investment in manufacturing has mainly concentrated on those sectors employing capital-intensive production methods. This has been deliberate policy of the state: "Mechanised plant has been artificially cheapened through subsidies in the form of capital investment allowances and, until 1981, through artificially low interest rates. Over-valued exchange rates and the fact that import tariffs are not usually applied to capital equipment have also contributed to relative factor prices that favour increasing capital-intensive production techniques" (Ibid:163). Thus investment was directed at precisely those sectors where skilled and semi-skilled white workers were employed. Restrictions on black workers' rights of movement and employment and the cost and shortage of skilled labour have further encouraged the capital-intensification of manufacturing. As stated above, this capital-intensification is skewed in the direction of supplying the high-earning white consumer market with luxury products. The development of a large-scale motor industry for example was made possible by this market. The consequence to the economy, given the dependency on imports in this industry, has been even further dependence on imports for capital goods and the growing relative importance of primary production.[4]

The relative backwardness of manufacture and the importance of primary production are structural features of the domestic economy that is the basis for the imbalance in the relations between industrial sectors

[4] The contribution of mining to the GDP was declining until the 1970's but with the lack of expansion of the manufacturing sector, this trend is reversing. "In the decade up to 1975 fixed investment in mining was on average little more than 30 per cent of investment levels in manufacturing. In 1986-8 fixed investment in mining was roughly equivalent to that in the manufacturing sector...there is clear evidence of a reversal in the long-term trend according to which manufacturing grew in importance relative to mining until the 1970's"(Black, 1991:172).

and characterises its relationship to the world economy. The continuing crisis in the balance of payments is an expression of this structural imbalance, in its monetary form.

3. Structural imbalance and the crisis of the balance of payments

The failure of manufacturing to take off in South Africa is starkly revealed by declining output, employment and manufacture's share of Gross Domestic Product. The table below shows that despite all attempts at structural reform in the 1980's, the state has not succeeded in halting the decline of manufacturing output and of its dwindling share of GDP.

Table 2. GDP growth and manufacturing growth, 1965-1991

Average rate of manufacturing growth per annum

Year	output (%)	employment (%)	GDP(%)
1965-1970	7.4	3.2	5.4
1970-1975	6.0	4.1	4.0
1975-1980	4.1	1.5	3.4
1980-1985	-1.4	-1.0	1.1
1985-1991	0.7	-1.4	1.0

Source: Macroeconomic Research Group, 1993:239.

The decline of domestic manufacture has been expressed in a depency to import capital goods and the relative predominance of primary exports. This is reflected in the low percentage share of final process goods in total exports. The table below shows that only 6% of exports in 1988 were final processed products compared with 42% of raw materials excluding processed raw materials.

Table 3. Percentage exports by state of production, 1960,1970,1980,1988

Category	1960	1970	1980	1988
Raw materials	29	37	42	42
Processed raw materials	40	32	36	46
Sub-total	**69**	**69**	**78**	**88**
Material int. products	15	17	12	6
Final processed products	16	14	9	6
Sub-total	**31**	**31**	**21**	**12**
TOTAL	100	100	100	100

Source: RSA, Dept of Finance Budget Review,1990; Cited in MERG, 1993:241.

What these figures reveal is that a fundamental source of the problems capital and the state have to confront lies in the imbalance between the different sectors of the SA economy. The historical process of capital accumulation in South Africa and its integration in the world economy has continued to be characterised by a relationship of dependency. South Africa has always relied on the importation of capital equipment. As a result, its capital stock remained generally undeveloped and its South Africa's economic development always skewed towards mining and agriculture. As a result its role in the international division of labour has been essentially as a primary producer. This was the case in the sixties and it has continued to worsen.

South Africa's link to the world economy has taken the form of exporting precious metals and raw materials and importing capital. It hardly developed its own technological capacity. In the early sixties, through a combination of import substitution, high mining profits and low wages during the boom period SA was able to attract considerable direct foreign investment. The inflow of foreign capital which stoked the boom coincided with favourable export conditions in the primary sector. So South Africa enjoyed a favourable balance of payments situation which sustained the boom. But this was not sustained and South Africa remains extremely prone to crisis in the balance of payments.

The balance of payments expresses the overall relationship between manufacturing and the other sectors as mediated by their integration into the world economy.

Through market adjustments or state intervention, it is possible to try to regulate the relationship between the sectors. Similarly, any imbalance in the relationship between the sectors is inevitably reflected in the balance of payments situation and appears as a monetary crisis. The structural problem in the SA economy arises from this imbalance. It is for this reason also that the boom in manufacture can only be fully understood in relation to the series of active interventions of the SA state in its attempt at maintaining stable balance of payments conditions. With South Africa's integration into the world market, the world market necessarily mediates the relations between sectors. If mining booms then export earnings plus a growing home market and manufacture can grow. The hope was that manufacture could take off, but it remained backward by world standards. A lag in primary production therefore creates a crisis of the balance of payments and in manufacturing. As Brian Khan (1991:62) confirms, "Such was the pattern of adjustment to cycles that an acceleration of investment expenditure and the concomitant increase in capital goods imports would eventually hit the balance of payments constraint. Concern for the level of foreign exchange reserves led to monetary restraints and high interest rates. The consequent increase in the cost of capital slowed the rate of investment and consumption, and thereby reduced imports". The rising deficit in the balance of payments, due to the fact that with the increasing importation of capital equipment there was no corresponding increase in the value of exports, forced the SA economy into recession by the end of the sixties.

The balance of payments problem that constantly beset the SA economy is the consequence of underlying structural deficiencies that arise from the nature of the production and accumulation of surplus-value. The uneven development of the manufacturing sector relative to the primary sector is a consequence of the dependent relationship to the world economy and the `distortions' resulting from colonialism. More importantly, the social relations of production - in this particular case, the social relations in the immmediate process of manufacturing production - is a function of the historic development of class struggle, the relationship between capital and labour.

The need to develop manufacturing production was part of the struggle to impose the command of capital over labour. In the case of SA, proletarianisation was accompanied by state-imposed labour control and distribution in accordance with apartheid policy. This immediately exposes the relationships of power and coercion that accompanies the production of surplus value to the extent that any intensification of labour means the intensification of class struggle. In order to make the manufacturing industry competitive internationally, it is necessary to restructure production. This involves the intensification of labour and the increase of work discipline in order to reduce the cost of labour power and increase productivity. This process, necessary for correcting the imbalance between the sectors, exacerbates the problem by intensifying the struggle between capital and labour at the point of production, on the one hand,and between the state and labour, on the other. "The contradiction that besets the South African state is that it has to resolve the economic crisis without intensifying the political crisis to such an extent that the very persistence of capitalism in South Africa is threatened" (Clarke,1972:70).

4. The state and the money form of the crisis

The manufacturing boom intensified the class struggle between capital and labour at the point of production and between the state and the rapidly rising reserve army of labour displaced by the introduction of modern technology and the restructuring of the labour process. This intensification of conflict and the increasing manifestation of the economic crisis reinforced each other, and revealed and extended the coercive and interventionist character of the SA state.

The crisis is a crisis of the reproduction of capitalist production relations. But the crisis is not confined to the sphere of production, but is expressed in a variety of economic, political and ideological forms. The impact of the crisis on the state is mediated by these forms. The state could respond to the political challenges of the working class with intensified repression. But direct and indirect acts of repression only intensified the crisis. The state could equally ignore or reject the representations of `progressive capitalists'. But this has only dented the political and ideological foundations of state power. More fundamentally, the financial and monetary expression of the crisis undermined the material reproduction of the state. The monetary crisis is thus not an independent or even an isolated expression of the crisis, it is the culmination of the crisis at the level of the state.

It is in this form that the structural weaknesses of SA capital are revealed. The stability of the state becomes expressed in the stability of the money-form. In other words, the political power of the state depends on the social power of money. In this way, the state and civil society is permanently subordinated to the social power of capital. The boom in manufacturing in the sixties, the subsequent development of the economic crisis as a component of the crisis in the social relations of production, the monetary form in which the crisis is expressed, through to the early 1990's, reveals how the rhythm of class struggle - the dynamic relationship between capital and labour has shaped the nature of capital accumulation and the form of the state in South Africa.

CHAPTER FOUR

Economic crisis and mass struggle

With the demise of the sixties boom the nature of the accumulation crisis in South Africa came into sharper relief. Not only was the quantitative and qualitative character of this brief period of intensified industrial expansion exposed, but it also enabled new pressures, both domestic and global, to change the dynamic of capital accumulation and reveal new struggles between capital and labour. Growing economic pressures on the South African economy intensified. But the ability of the domestic economy to overcome the movement towards recession and crisis was subverted by rising inflation, deficits in the balance of payments and a growing shortage of skilled workers. The drift towards recessionary conditions in the

seventies was a function of structural imbalances in the SA economy. This imbalance manifested itself by exposing the limited and dependent nature of manufacturing as well as South Africa's vulnerability to the money and capital markets. These structural features which precipitated the seventies recession were further exacerbated by the 1973/4 crisis in the world economy and the mass action of 1976.
In the face of growing economic crisis state attempts at overcoming the crisis by a programme of restructuring was counterbalanced by increasing worker militancy and organisation at the workplace and popular struggles against the apartheid state. This chapter aims to address the relationship between the economic crisis and the mass struggles which occured in the seventies. In order to do so, it is necessary to analyse the domestic and global developments which were central to the crisis of capital accumulation apparent in the immediate aftermath of the boom. These are, the limited development of manufacturing, the vulnerability of the internal money and capital markets and the consequence to the SA economy of the 1972/3 global recession.

1. Limited development of manufacturing

From a peak of 9.9% in the period 1960-65, the average per annum growth of the rate of manufacturing output dropped steadily in the seventies, reaching a low of 4.1% in the 1975-80 period and -1.2% in 1980-85 (Black, 1991:157). The fragility of the boom in manufacturing was manifested not simply by the drop in output after 1965, but also by the qualitative character of the manufacturing expansion which occured. Reflecting on the development of manufacturing in the 1980's, Black argues that "the slowdown has been of a much longer duration... and is attributable more to structural problems that began emerging in the earlier period of rapid growth. In particular, it is symptomatic of the failure of South Africa's post-war growth model" (Ibid:156-7). These structural problems concern the dependence on imports by the manufacturing industry, the lack of manufacturing exports and the consequent pressures on the balance of payments that arise from this imbalance.

Analysing the development of manufacture between 1919 and 1976, Jill Nattrass observed that, "both the increase in the degree of capital intensity in production methods and in labour productivity were relatively low, and ... on average the increases in output that occurred came mainly from the creation of new jobs, rather than from the introduction of more mechanised techniques." (Nattrass,1981:165) This is as a result of the predominance of `capital widening' (expanding existing production methods), rather than `capital deepening' (introducing production methods that facilitate the intensification of surplus-value production by increasing the organic composition of capital. Taking the period as a whole, only 25% of the annual growth of capital resulted in an increase in the intensification of production, with the real value of output (per rand) remaining constant overall. In the latter part of the period, Nattrass found that between 1951 and 1970, "the proportion of investment going to create new jobs decreased to 57 per cent (from 78% in 1936-1951) and then increased again to 68 per cent over the 6 years to 1976" (Nattrass, 1981:167). This suggests that the sixties boom did not result (in the seventies, at least) in a significant lasting shift towards the intensification of the production of relative surplus-value. Private sector investment in manufacture dropped from 1974 and the volume of manufacturing output between mid-1974 and mid-1975, fell by 6%. During 1978- 1979, only 16% of the increase in manufacturing output could be attributed to productivity increases as a result of the introduction of new technology as compared to 66% in the developed capitalist countries (Saul and Gelb, 1981:28).

These figures concerning the character of the development of the manufacturing industry suggest that manufacturing production, particularly the production of capital goods, remained limited relative to the economy as a whole and was unable to break out of its dependence on foreign technology and imported capital goods. Taking a comparative perpective, Moll (1991) argues that SA's growth rate, compared to similar middle-income developing countries, remained `consistently mediocre', with the economy in an economic slump since the 1940's, despite a high potential for growth in the post-war economy. This potential for economic growth rests on relatively stable political conditions after the war, relatively advanced communications and trade links and a mining sector earning foreign exchange and easing the balance of payments situation. What Moll's figures show is that SA's share of world manufacturing production was in steady decline between 1955 and 1985, its productive capacity was such that it could not respond favourably to world demands on competitive terms that would increase its export of manufactured products. South Africa's share of `developing' countries' manufactured exports drop from 12.61% in 1955 to 1.92% in 1985 while the comparative figures for SA's share of the total world manufacturing exports are 0.78% and 0.27% respectively (Moll,1991:282).

However, despite the limitations outlined above, there did occur a relative tendency towards increasing capital intensity in the sixties and seventies, in marked contrast to the period after the war. The expansion in manufacturing capital changed the nature of the enterprise in the immediate process of production in each industrial sector. This included the diversification of production, structural changes in manufacturing output, changes in employment and working conditions and in the productivity of labour. While, in the earlier period the manufacturing output was geared towards the production of goods for mining and for the domestic consumer market, in the seventies a shift occurred towards the production of machine and metal products, many substituting for previously imported products. The new skill requirements resulted in changes in the labour market particularly concerning the racial division of labour and the implementation of controls over black labour.

Manufacturing expansion was also a reflection of the changing relationship between the state and capital. The seventies saw the intensification of the state's involvement in the industrial sector with the expansion of SASOL, ESCOM, ARMSCOR and ISCOR. By 1972, 25% of manufacturing capital was owned by the state (Nattrass, 1981:234).

Increasing state spending on infrastructural development, the expansion of parastatals and rising defence expenditure, meant increasing reliance on long-term loans from foreign banks. The sixties saw a shift in foreign investment from concentration on mining stock, investment by foreign multinations became increasingly direct, particularly with the mining of `strategic' minerals.[1] But the increase in direct foreign investment did not change SA's dependent status. It was still cheaper to import technology rather than develop it domestically. In 1973, for example, 75% of imports were for machinery and industrial equipment (Saul and Gelb,1986:75). This put pressure on the balance of payments, plagued by a rising deficit.

2. Vulnerability of the internal money and capital markets

SA money and capital markets remained vulnerable to the vicissitudes of the international financial system because SA lacked a modernised internal financial system The intensification of class struggle in the late fifties and early sixties resulted in the institution of various controls over the flow of funds to reduce the outflow of capital, particularly after Sharpville. Differing forms of exchange control were applied with varied success. In May 1961, a set of measures was adopted to tighten exchange control and strengthen existing import control measures but this failed to affect stock control transactions, the main

[1] "Many of the new investments of the 1960s and the 1970s were joint ventures between some combination of foreign, local private and state capital (the latter through the IDC)." Saul and Gelb (1986)p. 76

conduit for capital flight. In June 1961 this outlet was plugged through wider control over securities, subjecting the local sale proceeds of all foreign investment in local companies to a `blocking' procedure. According to Franszen (1983:110-111) while effective, this measure "had far-reaching long-term external and internal effects".

South Africa's importance as a supplier of raw materials, particularly strategic minerals and gold and its importance as a regional power in Southern Africa, has enabled the domestic economy to carve a niche for itself as a key component of the global accumulation of capital. Historically, British investment particularly in the mining industry, but also in manufacturing and finance, has played a key role in the global location of the SA economy. But US investment, particularly after capital outflows as a result of the Sharpville massacre in 1961, played a critical role in shaping SA's relationship with global capital during the period of US domination of the world economy. The key areas of US capital investment, viz capital goods, computers, transportation and energy, were crucial in the period of industrial expansion after Sharpville. The importance of foreign investment in this period was confirmed by the SA Reserve Bank:

"In the long run, South Africa has to a large extent been dependent on foreign capital for development purposes...It is highly dependent on foreign capital, particularly risk capital, to achieve a relatively high rate of growth. The relatively high rate of growth experienced by the South African economy during the past three years (1969-71) was, therefore, only achieved with an increase in the relative importance of foreign funds in the financing of gross domestic investment."[2] South Africa is also critical in providing a stable supply of gold to the world financial system.[3] To the SA economy, this relationship has meant that economic conditions in SA are locked into the cyclical nature of the world economy with the economy subjected to major strains as the global economy oscillates between boom and recession. The balance of payments crisis which has been a feature of SA's economic crisis is a consequence of SA's role in the international division of labour. Both the current and capital accounts of the balance of payments are sensitive to both local and international conditions of accumulation,"Thus the extent to which the domestic crisis has affected the balance of payments is affected in turn by the changing nature of the international monetary system" (Khan, 1991:59).

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[2] cited in B. Rogers (1976) p97 For US investors, the risks were very favourable, as confirmed by *Fortune* in 1972: "Capital (in SA) is not threatened by political instability or nationalisation. Labor is cheap, the market is booming, and the currency hard and convertible." Cited in Milkman (1982) p438

[3] In 1969 SA was responsible for 68.8% of the world's production of gold, according to the *Minerals Yearbook*, 1969, US Department of the Interior.

Although the IMF was a crucial source of funding to offset the balance of payments deficits that plagued SA, particularly after 1970, during the recessionary periods 1974-1977 and 1981 to the present (Padayachee, 1991) it could not remove the source of SA's crisis: the contradictory nature of capitalism arising from the limits imposed by working class struggle on capitalist accumulation and the resistance to the political institutions imposed by the apartheid state to counter this threat to its power.

Between 1946 and 1973 the main source of foreign investment came in the form of either direct or indirect investment. In the early seventies, however, foreign investment came increasingly as loan capital from private international banks (15% in 1974 to 32% in 1976). Importantly, these loans and bonds to South Africa were made, managed or underwritten by large international banks, which have extended large quantities of credit to South Africa since the early 1970's. Compared to earlier forms of investment, these loans were `untied' and monitoring was almost non-existent. The inflow of loan capital to South Africa between 1973 and 1976 was made possible by the greater availability of recycled petro-dollars after the 1973 oil price hike at a time when investment demand in the industrialised economies was low. As a result of political developments in Southern Africa, medium to long term international credit from private banks virtually dried up in the late seventies. But the oil price increase in 1979, rising price of gold and the international debt crisis renewed interest in bank lending to South Africa in the early eighties.

"The slow-down in direct foreign investment does, however, indicate that foreign investors, motivated by South Africa's poor economic performance virtually throughout the period 1973-1985 and by political instability for much of the time, have taken a fairly negative view of South Africa's long-term economic and political prospects. This slow-down in equity and risk finance placed upward pressure on local interest rates, in turn forcing domestic borrowers to seek foreign funds. Especially between 1973 and 1976 and again between 1982 and 1984, the demand was easily met by foreign bankers anxious to place money in South Africa, which seemed a good risk - for this type of investment anyway - in view of its impeccable debt-servicing record up to then" (Padayachee, 1991:94).

South Africa's link to the world economy is based predominantly on its export of precious metals and raw materials and the importation of capital. As I have shown above, this and the structural imbalance between the industrial sectors manifests itself in a chronic balance of payments deficit. Attempts to protect the foreign exchange reserves led to monetary restraint and an increase in interest rates. "The consequent increase in the cost of capital slowed the rate of investment and consumption, and thereby reduced imports...During the 1970s, at the same time that the international monetary system was undergoing changes, South Africa experienced a decline in its terms of trade as a result of higher import prices, particularly capital equipment, and fluctuating prices of primary commodity exports...At the same time South Africa experienced a relative decline in direct foreign investment...as the international division of labour changed" (Khan,1991:62). These developments put pressure on the balance of payments. The vulnerability of the current and capital accounts is a consequence of the situation in which "South Africa's place in the international division of labour has not changed from being a raw material supplier" (Khan,1991:72).

Between the period 1970 to 1984, the proportion of direct foreign investment to total foreign investment declined from 68% to 39%. The growth of the Eurobond and Eurocurrency market provided easier access to international liquidity. The SA state's expenditure on strategic infrastructural development was financed through untied loans from these markets. Liberalisation policies of the SA Reserve Bank made possible unrestricted borrowing by private companies in the early 1980s.

The increasing emphasis on foreign loans rather than direct investment underlined the need to export primary commodities in order to generate foreign exchange to service the loans. In addition, political conditions, and the perception of these conditions overseas, encouraged a tightening of loan conditions and heightened the threat of loan withdrawals.

3. The 1973/4 world crisis

Expansionary economic policies pursued by the US government, while it stimulated accumulation on a world scale, also propelled the world economy into an inflationary boom. The effect this had on the world economy was of overproduction in manufacturing (supply of raw materials could not keep up with manufacturing production), with surplus capital being redeployed to speculation on the commodity markets. The oil-price hike and the general rise of commodity prices in 1973-4, while it stemmed the boom, resulted in large-scale transfers of surplus-value across the globe, particularly between oil importers and exporters. With its lucrative and relatively secure profit rates, SA was a prime target for international capital at this time as a market for high-technology, capital-intensive commodities.. Commodity price rises disrupted the international payments system and industrial countries faced the prospect of large balance of payments deficits. However, recycled petro-dollars, increased liquidity, enabling the financing of immediate payments deficits, easing pressure on the system of international payments. "However the rise in import prices increased inflationary pressure and further eroded profits, while the instability of the international financial system...increased the vulnerability of national currencies to speculation. Thus the crisis of 1974 precipitated an unprecedented crisis of profitability, and presented national governments with the pressures of domestic and international monetary instability" (Clarke, 1988:345).

The nature of the South African economy's insertion into the world economy, with its high propensity to import capital and export primary commodities, meant that the world crisis had immediate consequences for the SA economy. South Africa, along with other economies faced the prospect of either pursuing restrictive policies to cushion the inflationary effect of rising import prices, or to pursue expansionary policies to maintain profitibility. The options open were primarily a function of the balance of class forces: "While the former strategy would squeeze domestic profits further, provoking a sharp recession with rising unemployment and the liquidation of weaker capitals, the latter strategy threatened to precipitate an inflationary spiral. The policies adopted were determined primarily by the financial and political pressures to which the various national governments were subject. *The outcome of such policies depended not so much on the policies adopted, as on the course of the industrial and political struggles that it unleashed*"(Clarke,1988:346 - emphasis added).

The expansion of productive activity in SA was largely financed by inflation. Beginning from the fifties, "the monetary system was restructured to facilitate high levels of government borrowing at low interest rates, even though the new arrangements hampered the state's ability to control growth in credit extension by banks and in the money supply. Reinforced by rising prices in its major trading partners, the advanced capitalist countries, inflation became a structural feature in South Africa and this became extremely costly to capital from the early 1970s"(Saul and Gelb,1986:73).

As the state cut back on its expenditure, to stem escalating balance of payments problems, declining investment led to a rapid rise of unemployment particularly among black workers. The crisis escalated with the fall in the gold price in the first half of 1975 and the drop of 25% in the foreign exchange reserves during the first quarter of 1976, prompting an approach to the IMF for an emergency loan and the implementation of deflationary policies. These developments, however, have important social consequences. Each moment of crisis reveals contradictions. The state and capital's strategies to `resolve' them, are circumscribed by the ability of the working class to resist those strategies threatening the conditions of labour. The increasing combativity and organisation of Black workers, suffering the brunt of rising unemployment, inflation and restrictions on their ability to enter wage-labour, inevitably politicised the strategic options facing the state and capital and posed an important barrier to the search for alternative capitalist solutions to the crisis.

4. Economic crisis and mass struggle

The period leading up to the mass uprising of 1976 was already revealing the critical state of the SA economy. But it was also showing that the fate of the economy is at the same time a barometer of the growing intensity of the class struggle. With the growing intensity of class struggle, and the resultant barriers placed on capital accumulation by the working class, the contradictions arising from the structural imbalance of the economy intensified. Thus, despite declining GDP and GNP and unfavourable terms of trade, government spending accelerated because of the necessity to invest more in repression in an attempt to impose political conditions on the working class that would ensure its political and economic domination.

With the Portuguese coup of 1974 and the subsequent collapse of Prtuguese colonialism in Africa, the stakes were raised for foreign investment in SA. At a time of global recessionary conditions and the sharp drop in the gold price in August 1975, SA's terms of trade remained unfavourable. The inability of manufacturing to compete on the world market further emphasised the predominance of the primary sector in the economy.

Attempts made by the Reserve Bank to overcome the economic difficulties by tighter monetary control through increasing the bank rate and the minimum liquid asset requirement, introducing new exchange control measures and devaluing the rand by 17.9% in terms of the US$ in September 1975 did not improve matters. Political developments in Angola, Mozambique and Rhodesia placed pressure on the SA economy that subverted the policy measures of the Reserve Bank. Despite attempts to protect it through gold swap agreements, import deposit schemes and a loan from the IMF, the balance of payments remained under pressure with a declining capital account. The attempt to control bank credit led to a crisis in the banking sector. In the process, manufacturing production suffered considerably, devaluation of the rand meant higher import costs on top of the impact of the recession, while domestic recession limits the ability to raise prices.

What this pointed to was a crisis in the ability of the SA economy to integrate successfully with the international economy. It was clear that a `go it alone' strategy for the SA economy was not possible.This path could only lead to financial crisis and economic decline. Rather, what the economy needed was to maintain the balance of payments and to finance the rising deficit in the balance of payments. In addition, the failure of capital deepening in the manufacturing industry, meant the continued reliance on loan capital in the form of foreign investment. Furthermore, the increases in government borrowing to finance capital projects was an additional strain on the financial system. Everything pointed towards the necessity of modernising the financial system in order to make possible greater and more efficient integration of the economy into the world financial system. The conditions for such integration rests on financial stability, the reduction of government borrowing and making possible an expansion in private sector investment. A restructuring of the financial sector was necessary for servicing capital accumulation under the new conditions being confronted by capital and the state. Financial restructuring is not just about raising more money. Firstly, it is about the allocation of finance. Secondly, it is about subjecting capital to financial pressure. State intervention has been expensive and of limited success. Capital was therefore placed under stronger competitive pressure in the financial markets. Thirdly, restructuring is aimed at depoliticising economic policy. Finally, it is about subjecting the state to the command of capital.

Throughout this period of crisis for capital accumulation, a groundswell of working class resistance to the conditions imposed by capital and the apartheid state, was growing apace. The modernisation of the system of labour control under apartheid, after the political defeat of the working class in the early sixties, made possible the expansion of manufacturing production. But this process produced its own counter-tendencies within the working class. The intensification of labour and the large-scale displacement of workers with the introduction of new technology in manufacture, alongside the economic problems faced by the SA economy after the sixties boom, resulted in a growing movement of militancy and organisation, culminating in the Natal strikes of 1973, which marked the beginnings of the independent trade union movement and anticipated the mass uprising of 1976.

The mass action of 1976 was an important moment in the class struggle between capital and labour. In re-defining the relationship between capital and labour, the mass action attempted to assert its agenda on the political and economic relationships defined by the apartheid state. It set the crisis confronting the South African ruling class on a new level. No more could the fate of its project rely simply on immediate, short-term solutions to the crisis; a more fundamental restructuring of its strategic perspective was necessary. The resultant impact of 1976 on state and capital was such that representatives of capital began to assert and defend, in a more overt manner, what was seen as the long-term, strategic interests of capital. Their struggle was aimed primarily at the threat posed by organised labour and mass militancy. But, capital was also concerned and mindful of the danger of the politicisation of economic relations arising out of the policies and practice of the apartheid state. As Gerald Browne, the then Secretary of Finance, was reported to have said: "we have been hit on all fronts - the depression overseas, the decline of the gold price, the political disturbances in Southern Africa and during the past months in Soweto and other black townships and the reduction of the capital inflow as a result of these" (Star:12.04.77). As a result, capital pursued a twin policy of involvement in social reform measures and increasing political organisation and agitation in favour of reformism and economic activity unfettered by apartheid regulation. Barclays Bank warned in its Chairman's statement in 1977, that "unless socio-political change on an evolutionary basis is actively promoted by the authorities, the consequence of these adverse factors could permanently damage the economy of our country...The attraction of fresh capital from overseas to alleviate the Republic's capital account is dependent upon overseas investors being satisfied that evolutionary change as distinct from revolutionary change will take place at a reasonable pace" (Star:20.12.77). Impatient with government policy and its lack of a reform agenda, capital attempted to initiate their own efforts in this direction, to the chagrin of Prime Minister B.J. Voster.

The political crisis caused by the 1976 uprising, the resultant militancy and organisation among the ruled, the agitation for political reform and free market capitalism within capital, the increasing support for the economic isolation of SA from the world economy, all pointed towards the need for strategic realignment of class forces defining the nature of the apartheid state. An important precondition for this strategic realignment is the need to reform the financial system in order to make possible the allocation of the finance to implement such reforms and to pressure capital to restructure, i.e. transmit the pressure of global capital to individual capitalists. Financial reform was fundamental before the state could consider the general parameters of a strategic realignment. Thus it was that the agenda of state and capital, in the immmediate aftermath of the 1976 mass uprisings, was concerned with the urgency of financial restructuring.

CHAPTER FIVE

AFTER 1976: WHERE TO ?
Strategic implications for state and capital of the 1976 uprisings.

The post-Soweto period was marked by intensified efforts by capital and the state to seek solutions to a crisis which was becoming increasingly clear could not be overcome by short-term `ad-hoc' measures. The political debates within capital, while they may express historical divisions arising from particular economic and political interests, also, and more importantly, reflected the anxiety of capital as a whole, threatened by the upturn in working class militancy, to find an urgent but also *comprehensive* strategy to ensure its long-term security.

The economic crisis increasingly manifest after the sixties boom was one aspect of a *social* crisis reflected politically by the politicisation of economic relations. 1

The social forces which propelled the working class onto the streets to register their anger against the state in 1976 were also the basis of the economic crisis. The ruling class had to contend with a situation in which the working class was responding to the economic crisis *politically*. Consequently, the mass response to the growing economic crisis was not channelled or limited to the economic sphere (the institutional structures were not in place to make this possible) but was, instead, politicised. Disenfranchisement, the suppression of political dissent and assembly, the legal controls over trade union organisation and employment conditions for black workers all contributed towards the immediate politicisation of the response of black workers to worsening economic conditions. The forms of domination and exploitation on which the apartheid state depended resulted inevitably in a working class response that had no respect for the illusory boundaries between the `economic' and the `political'. For this reason, capital and the state could not confine their strategies to the economic sphere but were forced to combine their economic solutions with a long-term political strategy. In the absence of a political solution, the only way to resolve the political crisis was through economic growth. In the context of South Africa, this meant a rise in output of manufacturing. For this to be possible it was necessary to restructure the manufacturing industry. Thus it was that the immediate political pressures on the apartheid state brought about by the mass uprisings of 1976 was to begin a process of restructuring the domestic economy. At this stage, economic growth was the only way to avoid political reform.

However, a commitment to structural reform inevitably means confronting the question of how such reforms were to be implemented. The pressure for structural reform coincided with the failure of state intervention in the domestic economy. Lack of funds reduced the ability of the state to subsidise industrial activity. Underlying the reform agenda of capital and the state is the question of how the reform process itself would be financed. Behind the immediate political pressures faced by the ruling class, particularly after Soweto, is the acute financial pressures experienced by the domestic economy. 1976 brought home to the South African ruling class that a policy of sustained attrition through repression is not likely to stem the rising tide of militancy among the oppressed and, importantly for the critical state of the South African economy, political domination ultimately bears financial costs for the ruling class.

Before examining the responses of capital and the state to the mass struggles of 1976 in more detail, I will, firstly, outline the conditions which not only made adjustments to the class project inevitable but also imposed barriers to how this was to be achieved.

1. Rising costs of the apartheid state

The intensification of the struggle between capital and labour, as manifested for example by the Natal strikes of 1973 and the mass uprisings of 1976, threatened the command of capital over labour and in so doing, limited the ability and the capacity of the apartheid state to continue to rule in the old way. The consequence of worker militancy was the intensification of the efforts of the apartheid state to assert the command of capital over labour. This was done in a variety of ways. In the first instance, the state relied on its capacity for coercion harnessing the police and military to suppress popular and worker militancy and employing the legal apparatus to attempt to circumscribe the ability of workers to increase their independence, mobility and organisation. On the other hand, the state played an important role in the expansion of the manufacturing industry.

The political significance of this can be discerned by the ways in which the SA state attempted to determine the quantitative and qualitative character of manufacturing in order to achieve specific political objectives. Through the introduction of the policy of import substitution in 1925, the PACT government aimed to increase the employment of `civilised labour'. The job colour bar of the fifties and the decentralisation policies of the sixties were all part of the attempts of the SA state to shape the development of industry in order to achieve specific social objectives to ensure the command of capital over labour. What became increasingly clear in the seventies was that these strategies require significant expenditure on state resources both in their implementation and regulation and also in dealing with the consequences of such changes i.e. the cost of dealing with working class resistance to such measures. It was inevitable, therefore, that these would contribute to the rising costs of maintaining the apartheid state. As the economic crisis worsened, the ability of the state to afford such expenditure would become increasingly circumscribed.

The policy of restricting certain occupations to racially defined groups, the job colour bar, which was the pillar of the apartheid system and on which the relative privileges of the white working class depended, became a fetter on the further expansion of manufacturing in the sixties in that it narrowed the potential supply of skilled and semi-skilled workers at a time when there occurred an increasing tendency towards capital-intensification. Traditional sources of skilled labour (white workers and European migrants) had reached its limits. The pace of expansion of manufacturing could not be met (in the short-term) by the training of black workers. Furthermore, the relatively high cost of white labour, as a result of enjoying years of favoured status within the labour market, restricted profitability and the international competitivity of SA manufactured goods.

According to Merle Lipton, it was the policy of protectionism which cushioned domestic manufacturing and kept white workers' wages high. While this may have been effective in the short-term, "it raised the cost structure of the whole economy, as expensive SA goods had to be used in preference to cheaper imports"(Lipton, 1986:240). With the expansion of manufacturing, the consequences of protectionism was a weakening balance of payments situation, which, by the end of the sixties became a serious threat to accumulation.

The Reynders Commission, investigating the problem of manufacturing, added its voice to the calls for reforms when it accepted the need for structural changes both in the organisation of the labour market to enable the development of skills training among black workers and to expand the internal market through increasing black wages.

Added to the structural imbalances in the economy, international pressure on the SA state to change its political policies, in the form of economic sanctions, threatened exports and the ability to attract foreign capital.

In addition, the intensification of mass struggles against the apartheid state, increased state expenditure in counter-insurgency measures which included both repression (security and defence) and reforms to alleviate socio-economic conditions within the black population - acknowledged by the state as a prime source of the problems that led to 1976.
It is this `total strategy' that was to become, in the eighties, the essential ruling class response to 1976. This strategy of reform and repression placed great pressure on public expenditure at a time when the government was pursuing ambitious infrastructural expansion plans.[1]

Furthermore, given the relatively small tax base, heavy government expenditure placed constraints on financing the balance of payments and the budget deficits. Structural problems in the economy and the crisis in the balance of payments in particular, have direct implications for budgetary and fiscal policies. How the balance of payments deficit is financed, for example, will affect the rate of inflation, the interest rate and the exchange rate. Fiscal policies are subject to political pressures and require direct intervention.

[1] Rail and harbour developments at Richards Bay and Saldanah Bay, the oil-from-coal project, the nuclear enrichment programme and the introduction of television.

At a moment when the apartheid state is attempting to de-politicise the domestic economy, calls from capital against direct state intervention in the domestic economy in favour of control by the market, were becoming increasingly persuasive to the ruling class. Thus, Chief of the Defence Force, Gen. Constand Viljoen, in 1981: "A basic principle in the revolutionary (sic)struggle was to remove the sting of the revolution by making early changes...from a position of strength...The effort by government to accommodate the fair aspirations of all in SA was, from a security point of view, among the highest priorities" (quoted in Lipton, 1986:246).

2. State and capital's strategies for economic and political liberalisation

Capital, threatened by events in 1973 and 1976, increased its political profile by pressurising government to initiate liberal reforms. It also set up its own projects, such as the Urban Foundation. As a contemporary journalist testified: "The year 1976 proved overseas financial pundits correct: South Africa could not afford a prolonged recession without devastating consequences, and alarm bells in boardrooms throughout the country forced businessmen into the political arena en masse....The head of a giant international store chain, Mr M.D. Seiff, warned that hope for an economic recovery was misplaced unless the government was willing to make fundamental changes to basic policy. Foreign investors were pulling out" (Cape Times: 29.12.76).[2]

Recessionary conditions were heightening class struggle. The deterioration in the living conditions of black workers politicised economic conditions and fueled their militancy. Soweto was as much a consequence of the economic crisis as it was a political moment in the struggle against the apartheid state. The intensification of class struggle at the point of production provoked capital to seek a long-term solution to a problem they saw as endemic. Dennis Etheridge, an executive of the Anglo-American Corporation, called for the dismantling of the legal controls that keep blacks outside the economic and political system: `Those restrictions which prevent blacks from participating equally with whites in the market must go....If we keep wages low so that we can create as many jobs as possible, there must be two grave results: firstly we as an exporting country will not be able to keep pace with an increasingly competitive world and secondly, the free enterprise system will be rejected by black people and eventually overthrown'(Natal Mercury 28.10.80).

[2]Capital rallied behind the establishment of the Urban Foundation. Objectives included the improvement of housing standards, education, community activities, recreation facilities and job opportunities and the promotion of homeownership among Blacks.

The immediate post-Soweto period was characterised by a division between state and capital over the nature of the reform process. To capital, liberalisation of the economy is a necessary part of the liberalisation of politics. To the state, its immediate response to Soweto was a combination of political repression, state-induced reforms to enable limited and controlled incorporation of certain sections of the disenfranchised and further controls over economic activity, including further state regulation of the financial institutions.

Capital's political project was centered on liberal reforms to remove SA's pariah status which was inhibiting foreign investment, whereas its economic strategies were centered principally around industry-specific interests. The state on the other hand, in acknowledging the need for political liberalisation after Soweto (to further the integration of the SA economy in the world economy), was concerned with the effect this would have on the general conditions of capital accumulation within the domestic economy. Given the political and economic crises facing the state, the reform process became a matter of necessity. As the Governor of the Reserve Bank, Dr GPC De Kock, confirmed later: "Let us be realistic. As a result of unfavourable exogenous economic and non-economic events since the early seventies the South African economy inevitably had to undergo a process of adjustment. Meaningful \`compensating', \`neutralising' or \`immunising' measures were impossible. What we did need was `adjustment' and a proper `handling' of the situation....We only had a choice between different methods of adjustment, and between different ways of spreading the adjustment burden. But that we had to adjust was quite unavoidable" (De Kock,1986:37).

The political consequences of this process were clear to the Governor. Reform has to encompass the whole gamut of economic and political relations defining the apartheid state if it is to be of any success: "It is fallacious to think that, irrespective of what happens on the political front, South Africa can achieve optimal growth, low inflation, and so on, simply by adjusting its economic policies, and that it should give a higher priority to `getting the economy right' than to political reform...The close interrelationship between politics and economics in South africa makes it imperative for the country to move forward on both these fronts simultaneously" (De Kock,1989:28).

This realisation by the ruling class, however, only came to fruition in the latter half of the eighties, in the period after the Final Report of the De Kock Commission. It was the consequence of the intensification of class struggle. The appointment of the De Kock, Wiehahn and Riekert commissions in 1979, reflected the presssure of the mass struggles of 1976 on the state and the efforts of capital to de-politicise economic relations. The De Kock Commission was appointed in 1978 to investigate ways in which the financial system and monetary policy could be restructured. Wiehahn was concerned with developing institutions facilitating industrial conciliation in the face of the inability of capital and the state to control worker militancy and organisation, whereas the Riekert Commission was concerned with modernising the system of control over the movement of labour.

Capital welcomed the steps towards reform as these were steps towards the solution of their own problems of accumulation. In welcoming the reforms to government policy consequent to the Wiehahn and Riekert commissions, Gavin Relly, representing AMIC, saw the reforms as a necessary step towards making SA manufacturing internationally competitive: "The creation of a unitary and non-racial industrial relations system is an urgent priority for the South African economy and the extension of registered trade unions to all but temporary foreign employees is a step in this direction....Since the early sixties South Africa has experienced acute shortages of skilled workers. The creation of a collective bargaining system which includes workers of all races and will facilitate the opening of skilled jobs to blacks can ameliorate the position which becomes critical in times of economic expansion....the brutal fact is that, unless South Africa can train and improve its total labour force to an efficiency and effectiveness at least equal to that of its competitors, it will lose out to competition, particularly from the East, in many fields" (Financial Mail: 4.4.80).

A similar call for changes in government policy was made by Gordon Waddell of the Anglo-American Corporation at a FM investment conference in 1979. He observed that SA's economic growth would be blunted by the lack of foreign capital. "Waddell put investment in SA in perspective by showing that its performance as seen by foreign investors had worsened. He said a comparison with more developed primary producers, such as Brazil, Spain and Turkey, would illustrate that SA had fallen behind in both GNP and GDP per capita between 1960 and 1974. To Waddell, the acceptance of the proposals put forward by the De Kock, Wiehan and Riekert Commissions were imperative to show outsiders that SA was prepared to change politically and financially" (Financial Mail:09.11.79).

The changes in class relations as a result of struggles between capital and labour were of such a nature that they were perceived as threatening the continuation of existing social relations. From the point of view of the ruling class, the situation required new forms of domination. The consequent restructuring of the form of the apartheid state in the eighties institutionalised these new forms of domination and accumulation. Although capital attempted to reassert its power through the apartheid state, the success of its project is not only determined internally, within the geo-political boundaries of the apartheid state. The project is also of regional and global significance - and capital draws from its resources at all levels. The power of capital is asserted, in its most abstract form, in the power of money. It is in this abstract form that particular interests of capital are subsumed under the general interest.

3. The fundamental necessity of financial reform

Because of their visible political impact, much emphasis has been placed on the Wiehahn and Riekert reforms. It is my contention however that the investigations of the De Kock Commission and the restructuring that occurred as a result of its recommendations were fundamental to the reform project of capital and the state. It was at the level of money-relations, the abstract, generalised expression of capitalist relations, that the apartheid state initiated the process of reform. The financing of repression and political reform in the period of economic crisis that SA faced in the seventies placed great pressure on the financial system to raise the funds necessary for restructuring. Financial reforms, to implement the reform strategy, are fundamental.

Underlying the state's restructuring of the financial system was the need to finance the measures necessary to maintain economic and political stability. Adjustments to the form of the apartheid state have financial implications - not simply derived from a `cost-benefit' assessment *a la* Lipton, but more fundamentally as part of the process of asserting the predominance of capitalist social relations and the power of money in society.

In the first instance, financial reforms were introduced as part of the state's attempt to overcome the endemic balance of payments crisis. In order to maintain stability in the balance of payments, monetary restraint and higher interest rates were introduced to slow down the rising deficit. Monetary restraint came, in March 1977, with measures by the Reserve Bank to restrict bank lending by withdrawing the concession to banks which enabled them to increase their ceilings on certain loans and advances to the private sector by 1/2% a month. This not only raised the cost of capital but slowed down the rate of investment and consumption. The SA economy went into recession at the same time as the world economy was undergoing a process of restructuring. This impacted directly on the national economy particularly, in manufacturing, with the rise of import prices of capital equipment.

Capital opposed the restrictions on bank lending, seeing it as a means by which "more funds will be channelled to the public sector rather than the private sector" (RDM:31.03.77).[4] But the state's financial strategies were inadequate for the objectives it wanted to achieve and occurred at a time of global recession, substantial infra-structural developments and capital outlays to public corporations boosting central government expenditure during which the deficit in the balance of payments lasted longer than expected. This increase was financed largely by bank credit and therefore contributed to the excessive increase in the money and near money supply.

Political developments in Southern Africa, the demise of Portuguese colonialism and SA's military involvement in Angola and Mozambique, placed further pressures on the balance of payments deficit. The Reserve Bank responded by tightening monetary policy. But the depressed conditions worsened, and unemployment rose rapidly.

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[4] Similarly, the insurance industry, was bracing itself for further state controls as a result of the Louw commission into the long-term insurance industry. The commision recommended wider powers of intervention of the Registrar of financial Institutions. Donald Gordon, chair of the Guardian/Liberty Life Group estimated that "No less than 65% of the cash flows of life insurers and pension funds for the fiscal year to March 1978, will be compulsorily appropriated by the public sector"(RDM:27.5.77).

In August 1976, the IMF provided a standby facility of R153m for the purpose of absorbing some of the pressure on the gold and foreign reserves while the Reserve Bank makes monetary and fiscal adjustments. This process was fraught with difficulties as it had a direct impact on accumulation, as the Reserve Bank Governor testifies: " The adjustment process made heavy demands on the domestic economy during the past year. Various business undertakings experienced severe cash flow problems and the banking system had to withstand severe pressure" (OGM,1977:5). In the 1977-78 budget the Minister of Finance increased the minimum prescribed investments for banks, building societies, insurers and pension funds, imposed a surcharge on certain imports and increased indirect taxation.

But political conditions in Southern Africa combined with a decline in trade credits, decreasing fixed investment and a decline in the yields from direct investment contributed towards a deterioration in the capital account as a result of the net outflow of short-term capital and a decrease in the inflow of long-term capital. The net inflow of capital of R1 664m in 1975/76 and R33m in 1976/77 changed into a net capital outflow of R1 064m in 1977/78. "The size of the net capital outflow ...was related to the decrease in foreign financing of imports as well as political developments in Southern Africa"(OGM,1978:3).

The limited success of these short-term measures, despite the heavy demands on the domestic economy, put pressure on the need for longer-term strategies. The government changed track by attempting to restimulate the economy, incorporating steps to increase state expenditure on improving conditions in the black townships by allocating increased amounts for low-cost housing, extending the period for hire purchase payments on passenger and commercial vehicles and postponing the 5th phase of the local content programme for the manufacture of motor vehicles. The ceilings on bank credit to the private sector were raised by 4% of the base figures as at 31 December 1975 and an increase was announced in the circumscribed credit extension to the private sector which a banking institution may not exceed without becoming subject to the ceiling requirements (OGM:1978). The measures were designed to respond albeit inadequately to the social and economic conditions of the black working class whose struggle imposed contraints on state attempts to overcome the crisis. These were the first tentative steps towards a combined reform strategy.

Capital continued agitating against state controls. The forms of regulation introduced were regarded as undue inteference in the economy. Capital's reform project, on the other hand, was aimed at de-politicising economic relations. Many felt compelled to intervene more directly in the political process. Bob Aldworth, managing director of Barclays National Bank: "Surely the time has now come to free the capital market in South Africa from the inhibitions imposed upon it by the `captive' market and to allow interest rates freer play in allocating the available savings resources between the private and public sectors of the economy" (RDM:22.4.80).

While the process of restructuring the relationship between the state and capital gathered momentum, the Reserve Bank was still responding to the short-term pressures to finance expenditures and the balance of payments. This created a conflict between immediate economic pressures and long-term restructuring. This tension, expressed in capital's exasperation with existing monetary policy, was strongly captured in a Financial Mail leader comment:

"The blatant contradictions within this country's monetary system have suggested for some time now that it needs a thorough overhaul...For instance, control of the money supply has required, even during a period of reduced bank lending, both a tight quantitative credit ceiling as well as inordinately high bank liquidity ratios. We have seen the money supply itself fluctuate wildly from month to month, suggesting that at times the authorities were not in complete control. Moreover, the piecemeal implementation of policy has resulted at times in the rand's international value actually declining when the trade surplus was approaching record proportions. This meant that, while trying to curb inflation at home via the money supply, we were encouraging import prices to rise via the exchange rate. Our peculiar brand of monetary policy has also resulted in government, which does not need the money, borrowing at half the price paid by commerce and industry, investment in which has been lagging" (FM: 8.2.80). Capital is concerned that the state be subordinated to monetary constraint and the internationalisation of capital.

The agitation for monetary policy to be directed by `market forces' instead of direct controls found support in the interim report of the De Kock Commission. The Commission's recommendations tended towards favouring a `managed' float of the rand, a position subsequently adopted by a government keen to show its commitment to monetarist policies. In an address to business representatives in November 1979, the prime minister stressed that the government's economic strategy, "does not in any way imply greater government intervention in the private sector by way of measures of control. My government not only fully subscribes to the principles of free enterprise and the market mechanism, but will apply these principles in practice to a greater extent" (FM:8.2.80). But the apparent reluctance of the Reserve Bank to implement this policy made it a target for attack: "Are we heading towards the trauma of yet another series of massive and sudden changes in the external value of the rand? Is the economy again to be buffeted by sharp speculative moves into and out of the rand, anticipating overnight revaluation or devaluation? Are the reserves again to be depleted and growth thwarted by an inadequate exchange rate policy? It is clear that SA's currency is undervalued. How can it fail to reflect, even marginally, gold's recent surge? ....a policy is also not wise that does not allow market forces to be reflected in prices, which are nothing more than signals sent by the market. If these signals are smothered by bureaucratic controls, resources are not efficiently allocated and the economy, and the people, suffer. This is happening in SA today and the guilty party is the Reserve Bank. What make matters the more galling is that the bank is out of step with governments own advanced thinking. This is to move away from controls towards the free play of market forces that jointly will encourage faster growth and enable the more effective implementation of official policy" (FM:8.2.80).

To the Reserve Bank, however, monetary policy was aimed principally at preventing excessive liquidity in the economy, a condition which distorts relative interest rates and therefore the flow of funds in the economy, increases in the rate of inflation and capital outflows (RDM:26.5.80). For this purpose, the Reserve Bank has always resorted to interventionist measures, a strategy viewed with disapproval by the rising tide of monetarism within state and capital.[5]

While monetarism found ready converts among representatives of capital, the state's position was much more pragmatic. Its shift towards monetarism arose from the failure of earlier policies to deal effectively with the economic and political problems facing SA in the seventies and eighties. According to S.S. Brand, the Chief of Financial Policy in the Department of Finance, the shift in policy "has not been simply a matter of rhetoric, and did not arise in the first place from ideological views on the merits of different kinds of economic systems...it arose rather from pragmatic responses to experience which indicated that, given the characteristics and resources of the South African

[5] The monetarist arguments centred on " the wide swings in bank liquidity and the policy of trying to mop up this liquidity which is created by exports and savings... the current low rates of interest when inflation is rising, and the control of bank lending, instead of controlling the monetary aggregates...(and) central banks intervention in the foreign exchange market"(H. Fridjhon, RDM:26.5.80)
Michael Parkin (monetarist, leading a seminar on monetary policy and financial markets in Johannesburg, attended by Chris Stals, then Dep. Governor of the Reserve Bank and Jan Lombard, Special Advisor to the Reserve Bank): "If the Reserve Bank concentrated its attention on ensuring that the money supply in SA was to grow at a steady predictable and ultimately non-inflationary rate, and if free markets were left to determine interest rates and exchange rates, SA would be well on the way to rapid, sustainable economic growth with little or no inflation. With domestic interest rates determined in the market place there would be an appropriate allocation of capital from the rest of the world to SA"(FM:30.5.80:981).

economy and the aims of economic policy in South Africa, government involvement and intervention had gone beyond the point where it was necessary and useful, and had in many respects become counterproductive" (Brand, 1981;129). The basis for the policy shift, as seen by Brand, arose from the need to curtail the rise of public sector capital spending which reached 54% of gross domestic investment in 1977, the ineffectiveness of government control measures, and the realisation that under present conditions, the public sector purse alone is inadequate for certain expenditure needs, in particular, housing. But Brand also sees the continued importance of the role of the state: (1) pressure for state action to reduce disparities in social services; (2) underparticipation of sections of the population in the economy; and (3) international political pressure and economic sanctions

What was becoming clear to the ruling class, above all, was that a `go-it-alone' strategy would simply lead to continual financial crises and economic decline. The SA economy needs to be further integrated into the world economy. For this, a long-term strategy needs to be in place which would maintain financial stability, a cut in government borrowing and stimulating private sector investment. A modern financial sector is required to allow for the servicing of all aspects of capital accumulation. In other words, a new class project has become necessary.

4 De Kock and the triumph of monetarism

The sharp drop in foreign reserves at the end of 1978 brought renewed attention to the work of the De Kock Commission. While the Reserve Bank argued optimistically that "the current account was still in surplus and, despite a continuing outflow of capital, the basic trend of the net foreign reserves was still upwards", to the Financial Mail, "The important thing, however, is to ensure that the mechanisms exist - and economic policies are pursued - that will help the balance of payments adjust to a higher rate of growth; in other words, that will stop the overall balace of payments from weakening and the reserves from plunging if the rate of growth accelerates. That, one hopes, is what the De Kock report is all about" (FM12.01.79:67).

The De Kock Commission's Interim report, released in January 1979, received an enthusiastic welcome by capital. Conrad Strauss, MD of Standard Bank saw the De Kock changes as a "removal of current deterrents towards non-resident investment in SA. ...Foreign investors should feel easier about committing their money to SA. They will be increasingly convinced of SA's investment merits by the fact that the Reserve Bank will have to spend less on supporting the rand and can now concentrate efforts on stimulating the economy" (FM:26.01.79). International capital's response was muted by political conditions: "The overall view of bankers, stockbrokers and industrialists in London and the continent is that the most significant part of the De Kock package is that the broadening of the securities' rands market will enable foreign investors to invest in South Africa at a substantial discount. They cautioned however, that the political situation remained the most important factor and no technical changes in the exchange rate nor even large discounts would encourage the large scale long- term situation unless there is a turn for the better" (Cape Times:26.11.79).

To De Kock the success of political reform is conditional on " the attainment in South Africa of a well-functioning monetary system with efficient financial markets and effective monetary and fiscal policies. We must have an appropriate degree of internal and external economic stability and a strong rand" (RDM:04.12.79). Whatever the subsequent fate of the De Kock Commission, its interim report went a long way in raising the expectation of the monetarists that their framework will be embodied in future state policy on the economy and that the spectre of state intervention in the economy is fading away.

CHAPTER SIX

DE KOCK TO THE RESCUE?
An assessment of the Interim Report of the De Kock Commission of Inquiry into the monetary system and monetary policy

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1. Crisis in the banking system and foreign exchange markets necessitate emergency measures

The sharp drop in foreign reserves at the end of 1978, preceded by a period of instability in the banking sector which resulted in the collapse of the Rondalia and the Rand banks, focussed attention on the necessity for reform of the monetary system and renewed the urgency of the De Kock Commission's task. But the Commission, appointed in 1978, was only expected to report to parliament in 1982 at the earliest. Continuing pressure on the SA economy, however, necessitated a short-circuiting of this process. The strategic concern of the ruling class was to ensure the financial integrity of the apartheid state both internally and externally. Growing economic and political instability was threatening the financial integrity of the SA state. At precisely the moment when the ruling class was vulnerable to the threat of internal opposition, continuing turbulence in the international economy in the wake of the collapse of Bretton Woods, meant that South Africa's relation to the world economy was in crisis. It needed to restructure the domestic economy in order for it to integrate effectively with the international economy. At the same time, SA capital, responding to working class struggles in the seventies, found it necessary to de-politicise economic relations under apartheid. It was in the sphere of monetary policy and the financial system that the state sought to restructure economic relations in this way. Thus it was that the Commission's original tasks were modified to give urgent attention to the question of the SA economy's integration with the world economy, in particular, its exchange rate policy. The search for strategic solutions to the crisis could not wait for the full deliberations of the De Kock Commission. As the Minister of Finance put it, "the abnormal combination of inflation, recession and balance of payments disequilibrium experienced in South Africa during the preceding years"[1], made necessary the release of an interim report to investigate (a) the money market and interest rates, and (b) the foreign exchange market and exchange rates.

[1] De Kock Commission, 1978; appendix to the Final Report, 1985:iii.

1.1 The banking crisis

Developments in the domestic banking sector played a crucial role in putting pressure on the state to restructure the banking system. The crisis in the banking system exposed to capital the volatility and fragility of the financial sector in the SA economy and the importance of restructuring the monetary system.

The immediate cause of the banking crisis was the collapse of the real estate property market. The boom in the sixties led to the intensive development of the luxury property market with the construction of major commercial properties and up-market shopping-centres. The scale and ease with which bank credit found its way into the property market at this time, was a consequence of the optimism engendered by the boom. As a result, major banking consortiums invested heavily in the property market. But the economic crisis, rising interest rates and the mass actions of 1976, buried the property developers. Writing on the Glen Anil collapse, the Financial Mail commented: "the company's problem is a lack of ready cash caused by the slump in property and rising interest rates....The residential property market is in the doldrums partly because of a lack of long-term finance - a problem caused by inflation - and partly because of a general lack of confidence in the future -

a result of the political situation" (FM:14.1.77:63). The collapse of Glen Anil and the millions of bank credit further exposed in the Corlet Drive collapse later, forced state and capital to re-examine the basis on which their economic and political strategies rested.

1. It exposed the vulnerability of the SA economy to developments in the world economy and the consequences of heightened class struggles. It reinforced in a direct way to the financial sector the consequences of 1976 and the lack of political and economic reform in an attempt to de-escalate rising social instability.

2. Given the scale of the exposure of bank credit, and the number of banks involved, it brought to the fore the character of the banking industry as a whole and its relationship to the individual capitalist enterprise. "The banks should pay more attention to assessing the changing outlook for industries as a whole, as distinct from that of individual customers" (FM:29.10.76). The intensification of competition within the banking sector and the subsequent large-scale exposure of bank credit, created a major turbulence in the banking industry;

3. It raised the issue of the role of the state in protecting the general interest of capital: To the Financial Mail the answer is simple: "To ensure the long-term survival of the free enterprise system in South Africa the best way is not to come to the rescue

of ailing companies. It is to let them go to the wall" (FM:14.01.77:64). Henri De Villiers, Managing Director of the Standard Bank Group, acknowledging possible `social and or strategic implications' when a company collapses, nevertheless, is primarily concerned with the threat to profits that state intervention may bring: "if one asks the state to cushion losses, one is also inviting the state to put a ceiling on profits which would represent a further erosion of the free enterprise system" (FM:14.01.77: 63). Despite the demise of the two small banks, the state was careful that its policies do not encourage further the tendencies towards monopolisation in the banking industry.

4. Nevertheless, the property collapse showed, through the different fate of the small banks to the big banks, the divide that exists within the banking industry. The demise of Rondalia and Rand Banks threatened a run on all small banks, prompting the Ministry of Finance to intervene and reassure the public: "I have received an assurance from the Registrar of Finance Institutions that, according to the information at his disposal, all other banking institutions are sound and that, if they receive normal support from the public, the monetary authorities know of no reason why they should experience difficulties."(Press statement by the Minister of Finance, Owen Horwood, Issued by the Dept of Information at the request of the Ministry of Finance, 2 February 1977) It was not long after this statement that the SA

Reserve Bank announced measures to assist the small banks, discounting acceptable securities and providing a R55 million fund through the NFC with contributions from the big five banks.

5. The banking crisis led to calls for further regulation and rationalisation of the banking system: "The first thing that needs to be put right and which deserves the immediate attention of bank boards - and of the Registrar - is closer supervision of the quality of bank assets, not merely the conventional liquid asset and capital ratios" (FM: 4.2.77:282). "In fact if there is to be any aid at all (to the small banks) it should be flanked by a major effort to rationalise the whole banking structure. That points to the need to engineer a reduction in the total number of banks from 51 to a much smaller number via mergers and consolidations" (FM:18.2.77:450).

6. The crisis prompted significant mergers and takeovers. Trust Bank was incorporated into Bankorp, the Rembrandt group chose this moment to enter the banking sector for the first time with a 20% acquisition in Volkskas and negotiated a similar stake in Bankorp and Volkskas acquired Sanlam's stake in Bonuskor.

7. Intensification of competition: The 60-year old cartel arrangement between the big commercial banks (Register for Cooperation - ROCO) collapsed in the face

of increasing competition with the small banks. Through aggressive promotion of newer paper (trade bills and promissory notes) the smaller banks were able to increase their market share over that of the bigger merchant banks whose business was traditionally based on the bankers acceptance market. The dissolving of ROCO freed the big banks from minimum charge arrangements on the discounting of bills, enabling them to take on the smaller banks. According to the Financial Mail, "The picture is of a market that has lost its head." (FM: 5.12.80) In a matter of days after the dissolution of ROCO, the Merchant Banking Association convened a meeting of banks where an agreement was reached to form an enlarged banking cartel including representatives from all the banks. Despite the intensification of competition, all the banks stood united in the face of possible state intervention: "all the banks, in fact, have a desire to maintain at least the semblance of an orderly market, if only to prevent the greater evil of official intervention to preserve market harmony." (FM: 5.12.80)[2]

8. The banking crisis exposed SA to the scrutiny of international bankers: "Foreign bankers, already wary of lending to South Africa because of the indeterminate

[2] At the same time, the banking sector increased its share of the savings market, from 39% to 51% between 1971 and 1978, while the building society's share was declining.(Source: Sunday Tribune 4.11.79)

political situation, are flocking to this country to check on their security now that two banks have been pressed to the wall...These bankers are also giving close attention to the domestic political situation" (Star: 20.2.77).

9. State controls under conditions of intensive competition have simply led banks to bypass controls: "The official (bank) ceilings have become a farce with the explosions in bank balance sheet financing through bills, local and foreign, and promissory notes. Bankers say that the authorities no longer have any real control because they have very little idea of what is going on with the extent of non-bank intermediation" (Harold Fridjohn, RDM: 5.3.80).

The banking crisis played an inportant political role in harnessing state and capital for the task of restructuring the monetary and financial system. It also brought home, in an immediate and direct way to its political constituency, the financial consequences of the apartheid dispensation and the lack of political reform.

1.2 The significance of the banking crisis

The banking crisis was significant in that it brought home to capital and the state that the integrity of the state as an institution with the task of controlling and regulating capitalist relations of production depends on the stability of the currency for the efficient exercise of its task of continuously expanding the command of capital over labour. But money-capital in turn, in its abstract and generalised form, exercises its power through the state, an institution that is defined by, and whose power is shaped through, the relationship between capital and labour. It is the struggles of the working class that place limits on the extent to which the state is able to successfully establish the command of capital over labour, and in this way too, labour confronts the power of money. In the banking crisis, money-capital was confronting state and capital with the contradictions both sought to overcome. It is not surprising therefore that the state sought, early on in the attempt at reform, to begin to tackle the restructuring project at the level of the money-form. It was in this form that the structural imbalance of the economy is reflected in its most abstract and generalised form. Also, the stability of the money form is essential for the stability of the state itself. In its task of protecting the stability of the rand, the Reserve Bank is exercising its central political function for the state of maintaining its economic and financial integrity - a notion implicitely confirmed by W.N.Meyer with his assertion that "For South Africa, after all, external floating [of the exchange rate of the Rand] has been the mirror-image of the socio-political disorder created at home". (Mayer, Securities Market no.5,nd:22) "Money-capital not only confronts particular capitals...but also confronts the state. The relations between money-capital and the state is realised through the state's responsibility for the regulation of the monetary system, and is institutionalised in the relation between the Central Bank...and the state" (Clarke,1972 65). The De Kock Commission's task should be seen in this light. The regulation of the monetary system is concerned with the general conditions of surplus-value production in the internal economy and how these conditions are expressed through the economy's relationship to the world economy.

What distinguished the state's reform strategy from that of particular capital, was that the state was concerned that liberalisation should not disrupt the existing institutionalised relationships within the system of administration and regulation. From this perspective, limits need to be imposed on inter-capitalist rivalry so that the larger goal of apartheid social-engineering could be fulfilled and that those institutions and economic units which have contributed over the years towards this goal should not suffer unduly from such liberalisation. While the De Kock reforms did see a movement towards monetarism, the financial strategies of the state remained pragmatic despite its monetarist rhetoric. On the other hand, the response of capital to the movement for reform was shaped by the concern of particular capitals, worried about the specific interests and fate of their industries in the reform process.

To summarise, the deepening crisis of the SA economy was reflected in its money form, as, firstly, a crisis of the balance of payments, and secondly, as a crisis of the banking sector. The money form of the crisis reflects the crisis facing capital in SA at its most abstract, generalised level. The failure of manufacturing to fully integrate the SA working class under the command of capital not only resulted in a financial crisis, but also reimposed the centrality of the power of money as the way for capital and the state to assert the command of capital over labour by imposing capitalist social relations in its money form. The balance of payments crisis, as I have argued earlier, is a consequence of the structural imbalance between the various sectors of the economy and reflects the nature of SA's relationship to the world economy. Within the domestic economy, the crisis of South Africa capitalism found expression in a banking crisis that led to the collapse of certain banks and calls for the restructuring of the banking system. It was this crisis in the domestic banking system that underscored the urgency of and galvanised the state into taking immediate steps to restructure the monetary system. In its quest for a long-term solution to the crisis, the state was not allowed the luxury of suspending short-term measures to deal with immediate problems. The dynamic of the crisis as a moment and a movement of class struggle, determined the constraints and the priorities of financial and monetary policies.

2. Crisis in the foreign exchange system

The Interim Report investigated the money market and the foreign exchange market. In doing so, it traced the recent history of the rand in relation to the international currency market and the international financial system, in particular the consequences of the dollar-pegging of the rand.

With the Smithsonian Agreement in December 1971 the capitalist economies realigned their exchange rates, including a devaluation of the dollar. In tandem with this adjustment, SA devalued the Rand by 12.28%. The Rand devaluation was also aimed at broader objectives: "...to raise the rand income of exporters of primary commodities and gold, to improve the competitiveness of domestic secondary industries, thereby stimulating production and investment, to increase government revenue and to make the general monetary and financial climate more conducive to economic expansion"
De Kock1,1978:5) However the subsequent instability of the international currency exchanges reflected the failure of the system of fixed exchanged rates. This

system was later abandoned in favour of `floating' exchange rates.

International monetary reform eventually led, in April 1978 to the Third Amendment to the Articles of Agreement of the IMF. This allowed each Fund member to choose whether to adopt free-floating, managed-floating or pegging of its currency. These reforms in the international financial system put great pressure on those countries without the necessary foreign exchange markets in place to fully integrate with the international financial markets. This applied particularly to SA, where the rand has been pegged to the US dollar since 1971. Dollar-pegging was seen as necessary because of the absence of a developed foreign exchange market in SA. As a result of wide currency fluctuations, this policy was changed in June 1974 to one of `independent managed floating' of the rand in order to `more closely reflect changes in South Africa's underlying balance of payments and domestic economic situation'(Ibid:5).[3] This did not however prove very succesful, the fate of the rand remaining effectively tied to the fluctuations of the US dollar, leading, in September 1975 to a further devaluation of the rand.

The Commission believed that while rand depreciation may increase inflationary pressures on prices and costs,

[3] from a statement by the Min. of Finance, 1974.

under certain circumstances it could be a stimulus to economic growth. It would raise the rand revenue of the mining industry and other exporters. This in turn would stimulate consumer spending and fixed and inventory investment. Accordingly currency depreciation was considered by the commission as a possible method to stimulate the economy without placing immediate pressure on the balance of payments. But the price that would have to be paid for this is a higher rate of inflation.

Under a floating rate system, the exchange rate tends to be an internal rather than an external influence on the balance of payments and the domestic economy. "It is no longer in the first instance a matter of analysing the likely effects of a devaluation or revaluation. Rather it becomes a question of how the different economic variables, *including the exchange rate,* would react to given changes in economic policy or to specific natural economic developments" (Ibid:12).
In a system of free or managed floating therefore, a different approach to the relationship between exchange rates and other economic variables is required in contrast to a system of stable but adjustable exchange rates in which the exchange rate is seen as a policy instrument which is applied externally (as in the case of SA). With the move towards floating currencies among the major capitalist economies the inadequacies of the exchange-rate system in SA was exposed. As a result, the Commission concluded, "The essence of the problem is

that the present system, based as it is on a relatively fixed dollar pegging in a relatively undeveloped foreign exchange market, is not conducive to the attainment of the optimum combination of economic growth, balance of payments equilibrium and internal economic stability" (Ibid:13).

3. Deficiencies in the financial system

The banking crisis exposed the undeveloped character of the SA financial system. While the expansion of manufacturing in the 1950's and sixties led to a mining-led restructuring of the financial system, by the end of the sixties, given the changes in the global economy and the political and economic crisis confronting the SA state, the financial system proved inadequate and was straining with the pressures on the economy.

The need for restructuring the financial system arose from the transformations that were taking place in the international foreign exchange markets. The dependent nature of SA manufacturing on the importation of high-technology capital goods requires an efficient financial system able to provide a fully integrated service for effective international trade and financial relations. This, the present system was not able to provide. Fluctuations of the rand exchange rate, pegged to the US dollar, capital-flight at every occasion of political instability and the banking crisis contributed to the instability of the rand. Given the politicisation of economic relations in SA, an unstable rand reflects directly on the state and its institutional responsibility for ensuring constant reproduction of the social relations necessary for the production of surplus value.

The De Kock Commission was appointed to investigate the efficacy of the financial system. This was necessary so that new strategies could be developed to ensure continuing capitalist production and accumulation. The Interim Report outlined the deficiencies in the financial system. These included: (i) The absence of an active spot foreign exchange market in which currencies are bought and sold for immediate delivery. Without this a system of free or managed floating is not possible, and the Reserve Bank is obliged to continue pegging the rand or to fix the rand-dollar exchange rate administratively. Often maintenance of the stability of the rand-dollar exchange rate is done at the expense of economic growth targets or steps to reduce unemployment, limiting the ability to overcome the social consequences of the economic crisis. With the existing system, there is a tendency for changes in the balance of payments to be reflected immediately in the level of the foreign reserves and not in changes in the exchange rate. In an international currency market where the difference between the `spot' (currencies bought and sold for immediate delivery) and `forward' (currencies brought and sold for deliveries in the future) pricing is part of everyday international financial transactions, the absence of a developed spot market is a major deficiency.(ii) The absence of an active spot foreign exchange market hinders the development of a proper forward exchange market. South Africa has "an administered forward exchange `market' which is relatively undeveloped, artificial and even more tightly restricted by exchange control regulations and rulings than the spot market" (Ibid:15). (iii) The relatively high spreads between mandatory buying and selling rates for foreign exchange. These wide margins have tended to divert foreign exchange dealings involving rands to overseas markets. (iv) The present exchange rate system relies too heavily on a system of exchange control which is not effective nor efficient enough. It is not able to protect the official reserves against erosion and can be circumvented, legally and illegally. (v) The existing system "constitutes a serious deterrent to the inflow of capital into the country from abroad. A non-resident who wishes, for example, to invest directly in new plant, equipment, construction or property in South Africa, has to transfer his foreign currency into rand at the official exchange rate, but if he subsequently wishes to repatriate these funds, he either has to invest the funds in question in special government securities for seven years, or has to transfer the funds out of the country at the so-called `securities rand' rate, which for some time now has been standing at a discount of between 30 and 40 per cent against the official rate" (Ibid:17).

It was clear to the Commission that the existing financial system was not only subject to internal strains but was also not able to keep up with existing developments in the international financial system. The result has been chronic deficits in the balance of payments, inflation, rising interest rates and decreasing foreign investment.

4. The De Kock Commission's emergency reform proposals

The Commission confirmed the necessity to restructure the foreign exchange system. It recommended "a unitary exchange rate system under which an independent and flexible rand finds its own level in a well-developed and competitive spot and forward foreign exchange markets in South Africa, subject to Reserve Bank `intervention' or `management' by means of purchases and sales of foreign exchange (mainly U.S. dollars), but no exchange control over non-residents and only very limited control over residents" (Ibid:18). The recommendation was not for immediate abolition of exchange control, but rather to introduce a transitional measure to enable gradual movement towards the market determination of the rand exchange rate.

This transitional measure would include "the expansion of the existing dual exchange rate system in South Africa into a more developed and formal system with a managed, market-determined rate for an independent and flexible `commercial rand' and a more freely floating rate for a `financial rand'" (Ibid:23). This would require the development of an active spot foreign exchange market, the cutting of the rand-dollar link, so allowing the market to determine the exchange rate, improving the forward exchange system and changing the `securities' rand into a `financial' rand by extending its use for both residents and non-residents.

4.1 The analysis on which the proposals are based

How did the Commission motivate their proposals? What were their main concerns? Firstly, the Commission saw its recommendations as a step in the `depoliticisation' of the exchange rate. Under the financial system in operation at the time, any change or lack of change in the rand-dollar rate could be seen as the result of an administrative act for which the Minister of Finance is ultimately responsible. Under the system envisaged by the commission the rate would largely be determined by market conditions subject only to the intervention of the Reserve Bank. Secondly, the proposed system would help sustain the gold and other foreign reserves. Protecting the exchange rate of the rand from depreciation under the present system requires the unlimited selling of dollars from the reserves, which reflects immediately on the level of the reserves. With the proposed system, greater flexibility is possible in either allowing the rand to find its own level on the market or to prevent or limit the change through intervention. According to the commission this would better enable the Reserve Bank to deal with pressure on the reserves from balance of payments disequilibrium. Thirdly, the proposed system was designed to counter speculation in capital movements: "In the existing political climate of Southern Africa it is only realistic to expect substantial fluctuations from time to time in business confidence, as a result of alternating adverse and favourable developments...Under the proposed new system...any speculation against the rand produced by such fluctuations in confidence could be borne, in part, by the exchange rate rather than by the reserves, and after a certain point the speculation should cease to be a serious problem" (Ibid:21). Fourthly, the commission saw its proposals as a means of rationalising the exchange control system and simplifying its procedures. It is acknowledged that, in the long run, capital outflows cannot be completely blocked. The intention rather, is to allow the exchange rate to reach an appropriate level, at any given time, that would discourage capital outlow. Lastly, the proposal was seen as allowing greater independence in the application of monetary and fiscal policies. "This increased freedom and independence is particularly

important in an open economy like South Africa which is often confronted by a so-called `conflict' situation, i.e. a situation in which the defence of a fixed rand-dollar peg requires *restrictive* monetary and fiscal policies at a time when the domestic economic situation calls for *expansionary* policies" (Ibid:21).
The commission was clearly aware of the political consequences of monetary policy decisions and recommended a restructuring of the system in such a way that it could respond more immediately and flexibly to growing pressure from working class struggles.

4.2 State and capital's response to the Interim Report

As a result of the Interim Report, the foreign exchange market was suspended from 24th to 29th January 1979 in order to effect the following restructuring:
(i) The removal of prescribed exchange rates in the spot and forward markets; and
(ii) Change to `market oriented' forward dealing rates.

The significance of these measures needs to be put into perspective. Even though these reforms came at a favourable time for the SA economy, it was not as radical a restructuring as suggested by the political rhetoric of the time. Capital heralded these measures as a fundamental step in the right direction, but the details of the actual measures left the foreign exchange system relatively unchanged, as confirmed by a spokesperson of Barclays National Bank Limited: "The implementation of a few well-chosen concessions to the `free market' lobby has created an impression of liberalisation while the fundamentals of exchange control remain unchanged" (Connor, 1979:2)[4] Although the prescribed rate had been removed, the Reserve Bank was still determining the Rand/Dollar rate through pegging it with the dollar. Connor reiterates the view within certain sections of capital that the Reserve Bank is constrained by the political uncertainty in SA. The political tendency in favour of administrative control remain a strong tradition within the apparatus of the state. A reflection of this is the Reserve Bank's active and constant control of the foreign exchange market primarily as a result of its role as the provider of dollars through gold bullion sales. The Reserve Bank is constrained by the current size and composition of the gold and foreign exchange reserves to give the banks a bigger share of the turnover in foreign exchange as recommended by the Interim Report. Because of its strategic importance, the Reserve Bank is hard-pressed to relinquish control.

One immediate concern of bankers however, was the restrictions placed on their participation in the

[4]A.W. Connor, `The South African foreign exchange market six months after the Interim Report of the De Kock Commission', supplement to Barclays Business Brief, August 1979.

foreign exchange markets because of the domination of the Reserve Bank. A consequence of this was the intensification of competition and inter-bank rivalry in order to maximize their profits on foreign exchange dealings: "Probably one of the reasons why this over-competition takes place is because the volume of foreign exchange handled by the private banking sector is restricted. Too large an amount bypasses the the market by going straight to the central bank which does not yet participate on a continuous ongoing basis with the private market."[5] The relatively small size of the market means that the supply of foreign exchange is insufficient to service the spot demand of the banking sector.[6] Connor approaches the De Kock Commission's task pessimistically, particularly because he is aware of the political conditions within which the financial restructuring is taking place: "So far they have only come half-way through their calculations of the series of simultaneous equations which constitute the country's financial maze. If the next step can be taken, South Africa' parochial monetary system could become a significant force in the international financial world.

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[5] P.J. Liebenberg, `The exchange rate system from the vantage point of a private banker' in Lange *et al*, The Financial Rand, University of SA, Pretoria, p25.

[6] The gold and foreign reserves stood at $3 billion, of which $570 million is held in currency and the rest in gold bullion. A spot market would rapidly absorb this liquidity forcing the Reserve Bank to sell more bullion for dollars, a situation that would dramatically affect the gold price and consequently, the rest of the economy.

Whether that would be beneficial for South Africa and whether it could be achieved without an improvement in the country's international respectability would seem doubtful" (Ibid:5).

This was by no means the only response from capital. On the whole capital welcomed the report as heralding a strategic adjustment that they regarded as necessary for the long-term survival of the capitalist system in SA. But despite the Commission's cautiousness in implementing their long-term proposals, the government did not support the implementation of the full interim package as was envisaged. Indeed it became clear that the divisions within state and capital over strategic perspectives had not been fully resolved. Through its public rhetoric the state committed itself to liberalisation. Yet it diluted the proposals in practice by selectively implementing parts of the package. The banks for example, saw their profits on foreign exchange dealings (in the period immediately following the implementation of free markets policy) plummeting because their margins were reduced from 0.5% (the spread previously allowed by the government) to 0.1%, in one of the most lucrative parts of the banking operation. Barclays MD, Bob Aldworth, is quoted as remarking: "Our level of profit on foreign exchange will never be what it was before" (FM: 2.2.1979:301).

The Interim Report had proposed allowing the banks to handle the Krugerrand and diamond export earnings which would have compensated for the drop in profits from foreign exchange. But, as the Financial Mail points out, allowing the banks to do this would simply increase the dominance of the two big banks, Barclays and Standard, as both the Chamber of Mines and De Beers do their business with these two banks.

To De Kock the success of political reform is conditional on "the attainment in South Africa of a well-functioning monetary system with efficient financial markets and effective monetary and fiscal policies. We must have an appropriate degree of internal and external economic stability and a strong rand" (RDM:04.12.79). While the Interim Report attempted to respond to all the pressures on the financial system in SA strategic differences continued to plague state and capital, limiting and conditioning the steps that were seen to be necessary to overcome the crisis. The intensification of working class struggles in the 1980's made this process even more difficult.

4.3 A triumph for monetarism?

Acknowledging the necessity for a new class project did not come easy to the SA ruling class. It required the mass action of 1976 to force a strategic re-alignment. Until then, the ruling class, united in their committment to the capitalist process of valorisation, remained divided over the political form of the state and how best to ensure the continued reproduction of surplus-value. These divisions, arising from the conditions of accumulation: inter-sectoral competition, a shrinking internal market, low labour productivity and the lack of international competitivity, had implications for both the political form of the state and SA's strategic location within the world economy as the continuation of a policy of apartheid was threatening the flow of foreign investment. But such inter-sectoral rivalries can only be understood as part of the overall process of capital accumulation in which the contradiction between capital and labour is fundamental. A new class project is not only the product of inter-capitalist struggles and consensus, but arises from a moment of the capital-labour relation. A moment in the SA class struggle during which the black working class has achieved a level of combativity and organisation that could no longer be contained by the mere application of state force.

It was the rising power of the working class in the seventies that increasingly circumscribed the ability of capital and the state to overcome the crisis it was facing politically and economically. In addition, restructuring of the global economy was exposing and heightening the undeveloped nature of SA's integration in the world economy, subjecting the rand's exchange rate, financial and trade relations and the administration of the financial sector to major strain.

In this sense the battles at the workplace and in the townships had its counterpoint in the struggles of the ruling class, internally (and externally with the centres of world capitalism) to formulate a viable strategy for the continuation of capital accumulation in South Africa.

The initiatives that were taken to restructure the financial system was an important step towards reforms in the political sphere at the level of the state. By restructuring the financial system and introducing monetary reforms, it was hoped that the pressure on the domestic economy and the foreign exchanges could be reduced. Such structural reform was intended to facilitate and deepen the economy's integration in world markets. At the same time, financial reform was aimed at curbing state expenditure. The need for these reforms arose from the failure of the apartheid system of administration and regulation to continue capitalist accumulation without limits. That the working class can impose limits on this process was forcefully demonstrated by the events of 1976. The appointment of the Commission was the state's attempt to overcome the crisis as a result of the limits imposed by working class struggles. While the reforms did not, in themselves, solve the problem, they did set a new framework for accumulation. The politicisation of economic relationships under apartheid became a serious impediment to capital. The state after 1976 acknowledged the need to depoliticise economic relationships. It was the task of the Commission to formulate a strategy for financial reform that would facilitate this process. Monetarism was the ideological framework within which this transformation was placed.

The De Kock Commission's Interim report was seen as further confirmation of a movement towards monetarism, in which interventionist economic and financial policies would be replaced by the rule of the market. To capital, the Interim Report was further confirmation of its struggle to reduce state intervention in the economy. To the financial sector the Report was important in the drive to modernise the financial system in South Africa, necessary for the successful integration of the economy to international financial and trading markets and opening up the domestic economy to foreign investment. Conrad Strauss, MD of Standard Bank, for example, saw the De Kock changes as a "removal of current deterrents towards non-resident investment in SA. ...Foreign investors should feel easier about committing their money to SA. They will be increasingly convinced of SA's investment merits by the fact that the Reserve Bank will have to spend less on supporting the rand and can now concentrate efforts on stimulating the economy" (FM:26.01.79). On the other hand, international capital's response was muted by its assessment of internal political conditions:"The overall view of bankers, stockbrokers and industrialists in London and the continent is that the most significant part of the De Kock package is that the broadening of the securities' rands market will enable foreign investors to invest in South Africa at a substantial discount. They cautioned however, that the political situation remained the most important factor and no technical changes in the exchange rate nor even large discounts would encourage the large scale long- term situation unless there is a turn for the better." (Cape times:26.11.79) This position underscored the necessity for a long-term solution that goes beyond responding to immediate pressures and which embraces both economic and political aspects of the crisis.

Whatever the subsequent fate of the De Kock Commission, its interim report went a long way towards raising the expectation of the monetarists that their framework will be embodied in future state policy on the economy and that the spectre of state intervention in the economy is fading away: "When the business history of 1979 comes to be written, this year, which is sliding to a close, will probably go into the records as the year in which South Africa re-discovered the private enterprise system...Psuedo-socialism was thrown on the ash-heap as South Africa lined itself on the right with capitalism, free enterprise and a market-related economy. At least this is what our political lords and masters have been preaching ever since the de Kock Commission's interim report, brought a breath of fresh air into what had been a suffocating hot-house atmosphere" (Harold Fridjhon,RDM: 31.12.79).

Presenting the development in this way however, gives undue credence to the rhetoric of the monetarists, keen to exagerate the shift in their favour. This also served to paint a picture to foreign investors, that, at this stage at least, went beyond the bounds of the possible in terms of immediate state policy. This is true both in relation to the extent of financial restructuring as well as the steps taken to combat political instability. Notwithstanding its monetarist rhetoric, the financial strategies of the state remained largely pragmatic. But, what is important, however, is that the Interim Report strongly resonates with the urgency of the need for a ruling class response to working class struggles. The hesitant move towards monetarism is the first step in a process of restructuring the relations between capital, the working class and the state. This restructuring is an attempt by capital and the state to overcome the economic and political crisis by seeking to reassert the power of capital over labour. The extent to which this project becomes successful as it unfolded in the eighties and nineties will be investigated in later chapters.

CHAPTER SEVEN

Financial regulation, restructuring and the state 1980 - 1985

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1. Introduction

This chapter examines the tendencies and counter-tendencies which shaped the restructuring of the financial sector from the implementation of the first set of recommendations of the De Kock Commission, to the Final Report of the commission in 1985.

What the actual course of this process of restructuring demonstrated was that once formal moves were set in motion to embark upon a process of restructuring, the nature of the process itself could not be pre-determined but had to be fought for against conflicting class forces and the limits imposed by the money form. The struggle to impose new strategies of financial regulation itself was a site of contestation between state, labour and capital.

Monetary reforms and the restructuring of the financial sector following the First Interim Report of the De Kock Commission was a central part of the process in which the state and capital responded to the crisis of accumulation. Restructuring the financial system was necessary to regulate accumulation in a situation in which the mechanism of accumulation itself was changing in response to both growing working class struggles internally and the global crisis of capitalism. Financial restructuring is not separated from the process of capitalist restructuring of accumulation. In this sense, the De Kock reforms of the financial system and monetary policy is not about financial restructuring separated from accumulation, but rather, a process for enabling the continuation of accumulation in changed (and changing) circumstances.

The hesitant and piecemeal way in which the De Kock recommendations were implemented did not satisfy the pressure for financial and monetary reform, it simply raised the stakes, particularly after the public endorsement of `free enterprise'by the Prime Minister in his address to business in November 1979[1]. To follow through this commitment insofar as it concerns the

[1] See Financial Mail 8 February 1980, p455.

financial sector meant far-reaching transformations in the regulation and administration of monetary policy and the financial system.

The significance of the financial restructuring process lay in the attempt to provide a new framework for accumulation in South Africa that would serve to de-politicise economic relations by further subjecting the state to the `logic' of capital. The questions of concern are two-fold: (i) What does financial restructuring between 1980 and 1985 reveal of the nature of accumulation in SA in this period? and (ii) How has the changing form and function of the apartheid state been shaped by the changing requirements of capitalist accumulation?

The efficient administration and regulation of financial flows within the economy is essential for the smooth functioning of capitalist production and distribution. It sets the institutional parameters within which money-capital is designed to function to ensure the efficient accumulation of surplus value. Financial regulation is intimately part of the institutional function of the capitalist state to assert the command of capital and capitalist social relation within society. Institutional forms of financial regulation and administration within South Africa are a function of

(i) the historical specificity of the development of the South African state form, particularly its legal and administrative forms;
(ii) the particularity of capitalist accumulation in SA, particularly the dominance of the extractive industry and the dependent nature of domestic manufacturing.
(iii) SA's relation to the global economy, particularly the regulation and administration of global financial flows.

The institutional forms of financial regulation and administration are important, not in themselves as institutions, but rather as expressions of the power of money, the most abstract form of capital. The forms of regulation and administration institutionalise this power. Changes in institutional forms are the external features of deeper processes created by the dynamic of capitalist production and the capitalist state form.

Historically, the role of regulating economic relations under capitalism is seen as the responsibility of the state. The state is invested with the power to ensure the constant pursuit of capitalist economic objectives by imposing the command of capital over labour. But this objective is constantly undermined by the limits imposed by class struggles, particularly the resistance of the working class to the command of capital. The period after the Natal strikes in 1973 and the Soweto rebellion in 1976 was one in which the inherent fragility of the ruling class's hold on power was once again demonstrated by working class militancy and organisation. Capital and the state, in the interest of their own survival, urgently sought new perspectives and reappraisals of the existing framework of political rule and capital accumulation. If there were indications of divisions within the ruling class in the past, the signs of an emergent united and militant working class movement underlined the urgency of a collective strategic reassessment. Hitherto warring fractions of the capitalist class reasserted, once again, their common interest in ensuring the maintenance of capitalist relations of production on the one hand, and keeping in check the development of the working class struggle, on the other. In the words of an Economic Consultant of the Anglo-American Corporation, "If the free enterprise system is to survive in this difficult era, it must be allowed the utmost degree of flexibility to adjust to changing conditions"(Dickman, 1974:291).

This was the framework within which the overhauling of financial policy and the financial system took place. A process set in motion with the appointment of the De Kock Commission in 1978 and the subsequent dismantling of the legislative framework of the 1965 Banks Act in the eighties and early nineties.

2. Forms of financial regulation and administration: 1980-1985

The SA Reserve Bank

The state's responsibility for coordinating the administration and regulation of the movement of capital in all its forms is traditionally the task of the central bank. In the relationship between the state and the central bank is institutionalised the state's responsibility for the regulation of the monetary system. Whether the bank is legally `independent' or not does not fundamentally change the essence of its role as an apparatus granted the necessary powers by the state to serve a central role in the administration and regulation of the economy as a whole. In this respect, the SA Reserve Bank carries out all the customary central bank functions, which include:

i. The issuing of banknotes - It has the sole right to issue bank-notes in SA in accordance with the Reserve Bank Act of 1944;

ii. Acting as government banker - The bank administers the accounts of the central government, the Provincial Administrators and other statutory public and semi-public bodies, institutions and organisations;

iii. Custodian of other banks' cash reserves;

iv. Providing facilities for the clearing and settlement of inter-bank claims;

v. Custodian of gold and other foreign reserves[2];

vi. Acting as bank of rediscount and lender of last resort;

vii. Engaging in open market operations. In order to regulate the money supply or the level and pattern of interest rates, the Reserve Bank has the discretionary power to buy and sell government securities in the open market;

viii. Supervision of the foreign activities of SA banks[3]; and,

ix. Formulating and implementing monetary policy in cooperation with the Minister of Finance.

The Corporation for Public Deposits

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[2] The bank markets almost the whole gold output of the mining industry on the world markets. From the early seventies, Krugerrand gold coins have been marketed internationally by the International Gold Corporation Ltd.,a subidiary of the Chamber of Mines of SA. Since March 1979, the foreign exchange proceeds of Krugerrand sales have been channeled to authorised dealers instead of the Reserve Bank. As a means of expanding the foreign exchange market, it was announced in September 1983 that the gold mines would be paid in dollars instead of rands for gold purchased from them by the Reserve Bank. However, due to downward pressure on the rand exchange rate, this arrangement was revised temporarily to a 50% payment in US dollars and 50% in rands.

[3] The Governor of the Reserve Bank is the SA representative on the Board of Governors of the International Bank for Reconstruction and Development. The Bank administers SA's accounts with the IMF. In 1971 the bank became a member of the Bank for International Settlements.

The CPD was establised in 1984 for the purpose of rationalising and controlling the short-term surplus funds of the public sector. It is a wholly-owned subsidiary of the Reserve Bank. The most important depositors are provincial administrations, SA Transport Services (SATS), Dept of Post and Telecommunications and the fuel funds administered by the government.

Discount Houses

Discount Houses provide an outlet for the short term funds of the banking system and invest these in risk-free, mainly short-term negotiable securities. The liquidity of the discount houses is guaranteed by the Reserve Bank. They serve the following functions:

i. Custodians of the ultimate liquidity of the banking system. The discount houses make possible the smooth day-to-day flow of funds among the banks, enabling the banks to work to minimum cash ratios, knowing that their second line of reserves, call money, can be mobilised immediately, and that their third line, bills of exchange, can be held in a portfolio that is appropriately structured to their expectations;

ii. Provision of short-term finance;

iii. Marketing financial assets;

iv. Assisting in the execution of monetary policy;

The discount houses hold the ultimate liquidity of the banking system. Any factor causing an outflow of funds from the banking sector will result in call loans being drawn down or assets being sold to the houses, forcing them to approach the Reserve Bank for accommodation. Developments in the discount market serve as a barometer for the state of the financial markets. The discount houses report to the Reserve Bank on a daily basis. The market-creating capacity of the discount houses allows the Reserve Bank to operate in the market place through the purchase and sale of financial assets (mainly government securities) with a view to influencing money and credit conditions.

Commercial, General and Merchant Banks

All banks and discount houses are regulated by the Banks Act of 1965. This act stipulates certain prudential(capital and liquid asset) and monetary policy requirements. At the end of 1984 the total assets of commercial banks amounted to R39 767 million or 68% of the total assets of the monetary banking sector. The 1985 amendments to the Banks Act, which incorporated recommendations from the De Kock Commission, made provision for a new system whereby monetary control over banks is switched from liquid asset requirements to cash reserve requirements, while capital requirements will be based on the risk profile of banks' assets, their contingent liabilities and repurchase agreements, rather than being set at some percentage of banks' liabilities to the public. The Financial Institutions Amendment Act, no.106 of 1985, repealed the distinction between commercial, general and merchant banks.

The Land and Agricultural Bank of SA

The Land and Agricultural Bank was established in 1912 to provide cheap, long-term loans to full-time farmers and agricultural cooperatives. The Land Bank provides 3 types of loans viz. mortgage loans, charge loans and advances to defray farming costs.

6. The Development Bank of Southern Africa

The Development Bank was established by the SA government, in collaboration with the bantustans, in 1983 with its main function being financing developments in the bantustans.

Finance companies

Finance companies are credit institutions obtaining their funds from the corporate sector, debentures and note issues and from their own capital and reserves. These funds are re-lent in the form of short and long-term loans, advances, mortgage loans, factoring and hire-purchasing finance. Finance companies are not bound by the restrictions in the Banks Act and therefore have a competitive advantage over banks. The restrictions imposed on banks by the Banks Act of 1965 (credit ceilings and deposit rate control), encouraged the growth of finance companies, particularly in the 1980's. At the end of 1980 their total assets amounted to R1 022 million, but doubled to R2 105 million by the end of 1984.

Mining Houses

The main functions of mining houses are to develop new mining projects and to provide managerial, technical, administrative, and financial services to existing mines. The most significant development has been the change in the means of payment for gold by the Reserve Bank. Until the end of August 1983, mining houses were paid in rand for gold. On the 5th September 1983, the Reserve Bank started paying the mining houses in US dollars. Overnight the mining houses became one of the largest suppliers of dollars on the local foreign exchange market.

The Industrial Development Corporation of SA

The IDC is a public corporation authorised to finance, establish and conduct industrial undertakings. The IDC supports the establishment of new industries through medium-term loans and lease finance for plant and equipment. The IDC provides credit facilities for capital goods and services exported from SA and may provide guarantees on the importation of capital goods on medium to long-term credit.

The Small business Development Corporation

The SBDC, established in 1980 by government and private capital, assists small business by providing finance, advice, making available business premises and promoting their interests.

3. Immediate pressures and the struggle to impose the rule of money

3.1 The banking system

The crisis in the banking sector in the seventies, prompted by the collapse of the property market, was one of the early signs of the economic and political crisis expressing itself within the financial system. It provided one of the justifications for the need to restructure the financial system itself. The banking crisis provided a focus for all the contradictions of a capitalism in crisis. The financial reforms introduced after the First Interim Report which initiated moves towards `market' rather than state regulation and introduced the `managed' floating of the rand on the foreign -exchange market, while rationalising and modernising the structural links with the international capital and financial markets, were not able to contain the instability in the banking sector. Instead, it intensified competition resulting in further take-overs and mergers.

In a move towards adopting open market operations as forms of credit control, the Reserve Bank, from March 1980, introduced stricter requirements on cash reserves, while changes were made to the liquid asset requirements. Credit ceilings were raised, and later, from September 1980, were abolished altogether (OGM,1980:10). What the Reserve Bank was hoping to see was for bank credit to be directed towards production and export rather than consumption. Given the intensity of competition, the effect of these reforms led to further `grey market' operations with banks by-passing regulatory controls by using other forms of negotiable paper such as promissary notes and trade bills in an effort to increase competitive advantage by cutting rates. These forms of paper were treated as `contingent liabilities', and therefore not subject to reserve requirements.

The growth in `grey market' activities was also encouraged by the reductions in the margins allowed for foreign exchange dealings, one of the more profitable parts of banking operations. But, ultimately, in a market that is regarded as `over-banked', the intensity of competition threatened banking profits. New amendments to the Bank's Act which were implemented in January 1982, made these papers subject to reserve requirements, and at the same time, reduced liquid assets and capital reserves requirements on bankers' acceptances. The banks, seeing their interests threatened, formed a cartel to set minimum commission rates on endorsing paper.

The beginning of 1982 also saw the abolition of the link between the bank rate and the commercial bank prime overdraft rate, leaving the banks free to determine their own prime overdraft rate in the market, subject to certain legal restrictions on maximum rates of interest (Natal Mercury, 17.02.82). These adjustments to banking regulations and operations, were essentially short-term responses by the state (in the form of Reserve Bank interventions) to impose its monetary policy on the banks, in a situation where long-term policy guidelines for the banks were still being awaited from the De Kock Commission. Stanbic's Chairman, in his annual report in 1982, gave vent to the frustrations experienced by the banking sector: "It is a pity that the final report of the De Kock Commission has not yet been issued. The financial institutions have to operate in a climate of continuing change with little in the way of firm policy guidelines to assist planning, in particular of the structuring and funding of the exceptionally high liquid and prescribed reserves demanded of banks in this country" (Rand Daily Mail, 10.3.82). Indeed, since the First Interim Report of the De Kock Commission, in 1978, evidence of significant structural changes in the banking sector became more pronounced as shown in changes in the market capitalisation of the five major banks (Sunday Times, 1.08.82):

Table 4:

Banking groups' market capitalisation (R-m):

	1978	1982	%change
Nedbank	452	530	+17
Barclays	354	500	+41
Standard	334	288	-14
Volkskas	116	198	+71
Bankorp	76	75	-1

Source: Sunday Times: 1.8.82.

As banks respond to increasing competition they are forced to confront the question of profitability and the conditions which would give rise to increased returns. The calls for rationalisation and mergers were getting stronger:

"A merger between two or more of the major banking groups would make a good deal of sense because: Duplication of branches could be eliminated...The return on assets of South Africa banks - the only true measure of banking efficiency - is extremely low by world standards. Rationalisation would help towards raising the return to higher levels" (Sunday Times, 1.8.82).

But, in the absence of an overall strategy from the state, it was the reality of take-overs and mergers in the banking sector that set the pace for re-organisation and rationalisation. Barclays and Standard Banks, together controlling 54% of hire-purchase and leasing business, remained locked in a competitive battle in which high interest rates were narrowing margins (Sunday Times, 1.8.82). The dispute between Sanlam and Rembrandt over control of Federale Mynbou and thereby of Gencor, escalated into a conflict between Sanlam and Volkskas.[4] Nedbank became the first domestically-controlled bank to acquire a US banking license. Barclays and other commercial banks started entering the home loans market. Volkskas launched its London subsidiary, Volkskas International. One of the most significant developments for SA banking in 1982 was its entry into the international on-line network operated by the Society for Worldwide Interbank Financial Communication (SWIFT) (Star, 8.9.82). This made possible instantaneous computer-to-computer link-up with the international banking system.

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[4] "Sanlam and Volkskas were closely allied until 1977 when Volkskas refused to help rescue the ailing Trust Bank, forcing Sanlam into the banking field. And when Volkskas launched into the insurance field with the takeover of Legal and General, it again trod on Sanlam's toes. Banking sources say Sanlam is now determined to make its banking operations pay, even if it means continuing conflict with Volkskas" (Sunday Express:82.08.15).

3.2 Adjusting the financial system for social reform: building societies and housing finance.

One of the crucial areas of monetary policy and financial regulation that is directly affected by both inflation and rising interest rates and the intensification of competition, take-overs and mergers in the banking sector, and which has a direct social impact on living standards, is that of housing finance. In this respect the building societies play a crucial role. But during this period, "Mortgage bonds are not only becoming increasingly expensive, they are virtually unobtainable. Many borrowers are now in a position where bonds are granted to them only if they provide matching finance"(Financial Mail:82.08.13).

The response of building societies to this situation has been to regard themselves as competing for the same funds as the banks. It is therefore not surprising that the De Kock Commission had to turn its attention to the role of building societies. The transformation in the banking sector also had its parallels in the building society movement. The distinction between banks (deposit-taking institutions) and building societies (non-deposit-taking institutions) was becoming increasingly blurred, with building societies using more and more money-creating instruments. In so doing they were influencing directly the money supply and interest rates, consequently subverting the effectiveness of monetary policy.

Furthermore, the objective of monetary reform was concerned with the de-politicisation of economic activity by re-asserting the `logic' of capital and the power of money over the state. Among financial institutions, building societies were still operating under traditional regulations that were directly political in the sense that the legal framework within which they operate allows them to vary mortgage interest rates directly. In so doing, they are able to influence the flow of loanable funds to coincide with their particular interest rather than to that of the economy in general or to the social consequences of the particular nature of the housing stock flowing from the way in which building societies allocate their resources. The rapidly increasing black population in the urban centres and the limited and deteriorating housing stock in the townships have been identified by state and capital, particularly after 1976 when capital took the initiative with the establishment of the Urban Foundation, to be a major source of social unrest. If the objective of the financial reform programme is to de-politicise economic relations, then it follows that building society reform is crucial. The second Interim Report of the De Kock Commission, therefore, responded to important political pressures which were confronting capital and the state in the early 1980's.

4. Developing state policies on the monetary and financial system

4.1 The Second Interim Report of the De Kock Commission: 'The building societies, the financial markets and monetary policy'[5]

The Interim Report set the basis for adjustments to three aspects of SA political economy during the apartheid period:

1. Further extension of the new monetary policy and its regulation to building societies;
2. Reform of financial institutions to accord with the new monetary policies; and
3. De-politicising the provision of housing finance, which has been a pillar of apartheid, providing resources which made highly visible the gross inequalities between black and white in South Africa.

The structural changes that have occured over the years have transformed the operations and functions of building societies. "In view of the Commission, these

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[5] published by Government Printer on 7 December 1982, RP 93/1982. In the Budget Speech of 30 March 1983, the Minister of Finance announced the government's acceptance of the main recommendations of the Commission. Consequently a new Building Societies Act was drafted for submission to Parliament.

changes have unquestionably altered the role of building societies in the financial markets and have created certain problems for the monetary authorities for which solutions must be found if the relevant financial markets are to function properly and if monetary policy is to be effective."(De Kock 2:57) They are no longer simply savings institutions but are increasingly operating as banking institutions. Their profits are not derived only from personal savings. They actively compete with banks for the deposits of private and public corporations and other business enterprises. [6] Secondly, building societies deal with deposits and shares in such a way that they are treated more as `close money substitutes' withdrawable on demand or at short notice, rather than, more traditionally, as illiquid financial assets. Consequently, building societies have become more sensitive to money market interest rates, displaying greater fluctuations than that of capital market interest rates. "The tendency towards shorter average maturities, increased rates of turnover, and enhanced *de facto* moneyness of the building societies' liabilities would appear to be explained by two basic forces. Firstly, for many years now both inflation rates and interest rates have been substantially higher, more volatile and less predictable than formerly.(...)A second factor in shortening the

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[6] At the end of 1980, funds from these organisations comprised 18.5% of the total deposits and shares of building societies (Ibid:61).

average maturity of the building societies' liabilities has been that the societies have from time to time been discouraged by the authorities from adjusting their mortgage lending rates to the extent they might have wished to in the light of changes in market conditions"(Ibid:62).

The existing legal and institutional distinction between building societies and banking institutions in financial legislation and monetary policy has reduced the effectiveness of monetary policy by influencing monetary aggregates and interest rates: "the moneyness of building society deposits and shares make it a prerequisite for effective monetary policy that they be included in at least some of these aggregates, and that they be subjected to the same broad policy treatment as similar liquid funds held with banking institutions"(Ibid:63). The legal conditions within which building societies operate allows them variable mortgage interest rates. This flexibility can be politically problematic: "the perfectly justifiable need for building societies to increase their mortgage rates in certain circumstances...is not adequately appreciated by the general public and at times creates socio-political problems for the authorities"(Ibid:64). Fluctuations in borrowing rates have deleterious political consequences because they lead to increases in home mortgage rates:" This prospect might have the effects of inhibiting the monetary authorities in their policy actions and thereby undermining the effectiveness of monetary stabilisation policy. It is therefore important that this dilemma be resolved."(Ibid:64) Note that the emphasis is not over concern for providing political alternatives but rather the need to free monetary policy formulation from political considerations - as if this is possible!

The distinction between building societies and banks has produced unequal competition between the two and caused resources to be misallocated. The commission, wholly swallowing monetarist ideology, asserts that, "the basic reason why financial markets function best in the national interest if they are reasonably free, competitive, active and broad, and if they produce realistic market related interest rates, is that they are then conducive to the optimal allocation of available funds among competing uses. This in turn promotes sound and rapid economic growth and ensures the production of goods and services most fully in accordance with the people's wants, needs and priorities" (Ibid:65).

The legislative, fiscal and monetary differences between banks and building societies give building societies a greater advantage in the competition for funds enabling them to provide relatively lower housing mortgage interest rates. This imbalance, according to the Commission, could create a situation whereby "the limited supply of loanable funds in South Africa might be channelled into the construction or purchase of relatively luxurious middle-income houses and flats and an unduly small proportion into real investment in manufacturing, mining, commerce and agriculture, with harmful effects in the long run on real economic growth. Furthermore, within the field of housing itself, resources might be encouraged, in spite of the current differential mortgage rates, to flow into luxury housing at the expense of more modest lower-income housing."(Ibid:65) The Commission is essentially addressing here the concerns of the mainly white lower-middle-class aspirant home-owner hard hit by the economic recession, the main recipient of building society loans for private housing. In this period very little funding for black urban housing came from the building societies, a situation ackowledged by the Commission: "the main reasons why the supply of lower-income housing, particularly Black urban housing, has lagged in the past, clearly lie outside the sphere of building society activities and largely in the social and political field."(Ibid:65) But the restructuring is designed to enable financial institutions, given the necessary legal and political reforms, to increase the market for private home-ownership among blacks.

The Commission's recommendations, which were incorporated in the Final Report published in 1985 without any alteration, advocated a gradual restructuring leaving the separation of building societies and banks intact but making building societies comply with the same cash and liquid asset requirements as banking institutions. The Commission advocated the abolition of the prescribed investment requirements for building societies and relaxation of the restrictions on deposit-taking activities and mortgage loan requirements. Capital and reserve fund requirements should be introduced and built up gradually but not subject to the requirements of the Banks' Act, retaining their status as mutual organisations without equity share capital. To encourage stability in the provision of housing finance, the Commission recommends that part of building society finance be raised in the capital market through marketable debentures with a minimum maturity of three years. The principal objective of the suggested restructuring was to accord building societies "the same freedom as banks and other financial institutions to quote realistic and market-related borrowing and lending interest rates, and to vary these rates freely in response to changes in supply and demand resulting from the combined operation of natural economic forces and official monetary policy" (Ibid:73). To make this possible, "every effort be made to depoliticise building society mortgage rates and to make it clear that...all building society interest rates are basically determined by market forces and not by the Minister of Finance" (Ibid:74). Mindful of the social consequences of the strict application of this recommendation, the Commission allows for a safety valve, by recommending that "State assistance to ...keep the cost of housing finance below free-market levels should be provided in moderation and only when considered essential for socio-political reasons."

4.2. The Final Report of the De Kock Commission

"The Commission has reached the firm conclusion that, in the sophisticated financial system that has developed in South Africa, a market-oriented monetary strategy will serve the national interest better that any set of non-market-oriented or `direct' monetary controls" (De Kock F: A46). The ultimate objective being "relative stability of the price level (the primary objective), balance of payments equilibrium, optimal and relatively stable economic growth, and a high and relatively stable level of employment" (Ibid:A46). An intermediate measure recommended is in the form of target rates of growth for selected money supply aggregates. A rigid *money rule* is however rejected as undesirable given the specific conditions in South Africa where flexibility is necessary. If, under certain circumstances interest rates need to rise to relatively high levels in `sensitive areas' such as housing and agriculture, "relief should be granted by way of open subsidisation by the Government of the relevant interest rates generally or by direct controls on certain deposit or lending rates"(Ibid:47).

The market-oriented instruments of monetary policy recommended are:

1. Public debt management, including public borrowing policy;
2. Reserve Bank open-market operations;
3. Reserve Bank discount and general accommodation policy; and
4. Reserve Bank `intervention' in the spot and forward exchange markets.

For controlling bank credit, the Commission recommended the replacement of the liquid asset system by a cash reserve system and the extension of this instrument to building societies.

"Monetary policy is in itself no panacea but inevitably forms part of a more comprehensive economic policy strategy and has a close interrelationship with many other types of economic policy, such as fiscal policy, agricultural policy, commercial and industrial policy, mining policy, labour policy, energy policy and transport policy." (Ibid:240) Monetary stability is seen as a pre-condition for the effective implementation of these policies.

To sustain the fiscal and monetary strategies introduced following the recommendations by the De Kock Commission, amendments to the Banks Act were promulgated. To continue the process of change-over to a cash-reserve system of monetary control, the banks' liquid asset requirements were re-determined at 20, 15 and 5 percent of their short-term, medium term and long-term liabilities to the public respectively. Banks' capital requirements are now to be based 'differentially on the nature and risk of their various assets and other risk exposes rather than on the volume of their liabilities to the public'. New powers were granted to the supervisory authorities to regulate the overseas operations of banks. "The latest amendments to the Banks' Act represent part of the present comprehensive international effort to maintain sound national banking systems on which a stable and efficient international monetary system can be based"(OGM1985:11).

Inflation and unemployment

Responding to the argument that a high rate of inflation is the price to be paid for reducing unemployment, the commission emphasises the *complementary* relation between inflation and unemployment in South Africa.
"In South Africa, however, the problem of unemployment is to a large extent a function of *structural* characteristics of the economy, in particular the low level of skills commanded by most unemployed people in this country, the relatively low mobility of labour, the tendency of producers to substitute capital for labour in the productive processes of the economy, and recently

the declining growth potential of the economy due to the decline in its propensity to save. None of these structural factors militating against the employment of manpower can be neutralised by easy monetary policies" (De Kock F:241).

Inflation and wage increases

Combatting inflation by curbing the increase of workers' wages was specifically rejected by the commission. Direct intervention in the labour market, the Commission argued, "could have unfortunate economic and social consequences. This is particularly so at the present juncture of the evolution of industrial relations in this country, when many trade unions that were formally excluded from the industrial conciliation system are now on the threshold of representing the interests of their members in the process of bargaining for better labour conditions. These unions will, without doubt, resist the introduction of direct controls on wages" (Ibid:246). Furthermore, "Inflation `suppressed' by direct controls is still inflation, and if the real causes are not removed, the upward pressures on the price level will eventually prove impossible to contain" (Ibid:247).

Monetary and fiscal policies to control the demand and supply of money is seen by the commission as the basis of its anti-inflationary strategy. "It finds that the inflation in South Africa during the past twenty years was caused mainly by monetary and fiscal factors. These included excessive increases in the monetary aggregates and in government spending; control measures which led to abnormal disintermediation, reintermediation and other developments producing fluctuations in the velocity of circulation of the monetary aggregates; interest rates that were often too low and not always consistent with appropriate control over the money supply and monetary demand; and inappropriate spot and forward exchange rates that were not always allowed to adjust to levels that would have been reconciliable with, or would have contributed to, the appropriate level of monetary demand"(Ibid:250).

The relationship between the Reserve Bank and the Treasury

"In the field of *monetary policy*,...the responsibility for broad monetary policy should rest jointly with the Reserve Bank and the Treasury acting together as `the monetary authorities' in close coordination" (Ibid:251). This is the only way for effective coordination of monetary policy, especially regarding the management of public debt, open-market operations and in exchange rate and exchange control policy. The Commission believes that it is `natural and desirable' for the Treasury and the Reserve Bank to be separate institutional entities, as a result of their separate functions. The institutional independence enjoyed by the Reserve Bank since its inception in 1920 should be continued. The Bank should be granted `independence in initiating, formulating and implementing monetary policy', while the Treasury "must necessarily be entrusted with a variety of functions and responsibilities in carrying out official economic policy. The Reserve Bank, on the other hand, should primarily be charged with the responsibility for maintaining monetary stability and protecting the internal and external value of the currency." For this purpose the Commission recommended amendment to the Reserve Bank Act to "specifically charge and authorise the Bank to regulate the supply of money and the availibility of credit with a view to influencing total monetary demand in the economy" (Ibid:253-4). The case for `independence' also has a specifically political dimension:

1."it is in the national interest to have the Central Bank somewhat removed from the usual political pressures, as this facilitates a more detached and objective stance and enables a longer-term view of policy and to transcend the preoccupations of the government of the day" (Ibid:254).

2. With the employment of market-oriented policy instruments, influencing interest rates and exchange rates, for example, will only be deemed `non-political' if the Bank operates with considerable independence.

3. De-politicising the functions of the Reserve Bank will enable the Bank to play a role both in the `process

of evolutionary constitutional reform' and in the development of economic cooperation in Southern Africa.

5. The limits to the restructuring of the financial system: an assessment of the Final Report of the De Kock Commission.

The Final report, submitted in May 1985, 8 years after its appointment, contained many recommendations that had already been implemented during the time of its deliberations following the two interim reports. These include measures to broaden and increase the size of domestic credit, capital and foreign exchange markets through freeing the movement of interest and exchange rates in these markets. The objectives of these reforms were two-fold: (1) to improve the effectiveness and efficiency of the financial markets in allocating their resources in line with the appropriate economic objectives; and (2) to improve the effectiveness and efficiency of monetary policy which, the Commission believes, ultimately operates through interest rates to influence total demand and total expenditure in the economy.

The Final Report confirmed the Commission's support for a `market-orientated' monetary policy. The allocative function of the financial markets, the Commission believed, "function best in the national interest if they are reasonably free, competitive, active and broad, and produce realistic market-related interest and exchange rates" (Ibid:A9). Such an approach, the Commision argued, is necessary to effectively influence overall monetary demand in the economy by overcoming the problems of disintermediation, stabilising the growth of monetary aggregates and maintaining market-related interest and exchange rates. The overall concern of monetary policy is the maintenance of a stable domestic price level. This should be the ultimate objective of monetary policy, working in tandem with a "more comprehensive economic policy strategy that includes...fiscal policy, agricultural policy, industrial policy and labour policy" (Ibid: A10). But intermediate objectives should be aimed at targetting rates of growth of specific money supply aggregates.

However, behind its monetarist rhetoric the Commission created not only a new set of instruments for the control of the monetary and financial system, but also a framework within which `monetarist' panaceas could be tempered by political considerations. The framework allows for discretionary policies and decision-making linking the Bank to capital directly. The Commission distanced itself from the adoption of a "*rigid* and *overriding* `money rule' that implies leaving interest rates and exchange rates *completely* free to find their own levels at all times" (Ibid:A10). Instead, the commission suggested, the Reserve Bank should exercise its discretion - within the recommended policy framework - as to the specific monetary targets to aim at at any given time. To achieve these objectives the Commission recommends the use of `market-oriented' rather than `direct' monetary policy instruments. These should include, public debt management (including public borrowing), Reserve Bank open-market operations, Reserve bank discount and general accomodation policy and Reserve bank intervention in the spot and forward exchange markets. But under exceptional circumstances, direct methods are not ruled out.

The recommendations suggest the strengthening of the functions of the Reserve Bank in safeguarding the external and internal value of the currency by regulating the supply of money and the availability of credit for the purpose of influencing overall monetary demand in the economy. Rationalising the administration and regulation of monetary policy in this way is consistent with transformations in the state as it responds to changing political conditions determined by class struggle. Thus the recommendation that: "The composition of the Board of Directors of the reserve Bank should over time be adapted to reflect the evolutionary process of constitutional reform currently underway in South Africa", and, furthermore that "Every effort should be made to entrench the tradition that the reserve bank serves as the main channel through which ...financial institutions make representations or convey views to the Minister of Finance, and ultimately to the State President and the Cabinet. The Commission believes that, *under the special and evolving political conditions prevailing in South Africa, the existence of such an objective, non-political channel will prove increasingly useful to both the Government and the private financial sector*" (Ibid:A27, emphasis added).

Barclays Bank, in a response to the Final Report, welcomed the recommendation to apply specific money supply targets as it will serve to focus coordination of economic objectives in the desired direction. "By having to decide simultaneously on targets for growth, inflation, the money supply and changes in the Government's deficit before borrowing, monetary and fiscal policy, as well as the government's policy with regard to wage and price increass under its administration, will become much more systematic and better integrated than in the past, something which have often been lacking" (Barclay Business Brief,July 1985:5). But the bank regarded as inconsistent and inappropriate the description of Reserve Bank interventions as `market-related'. Rather, the Reserve bank should acknowledge the importance of their interventionist role. "The fact of the matter is that it is the assigned task of the central bank to intervene in the private money and capital markets, on the implicit assumption that it is in a better position than the various individual operators in the private markets to determine the best interest of the economy as a whole in the long run" (Ibid:6). The markets, through the price mechanism, will take too long, they argue, to remove imbalances in the economy. It is rather a question of which measure will be most effective in removing an imbalance as soon as possible and with the least cost. This should be acknowledged by the reserve bank: "there is no need to try and make its role more acceptable to businessmen and the public by propagating the notion that because it operates through the markets the interest rates it produces are market related" (Ibid:6). Rather, Barclay's Bank argues, instead of a market orientated policy, by accepting that the recommended policy instruments operate through changes in interest rates to influence monetary expenditure in the economy, the De Kock Commission recommendations are essentially *Keynesian* in its approach to monetary policy. The implications of this for Barclays Bank is that, because - they believe - changes in interest rates do not readily remove imbalances in the economy resulting from income and expenditure flows, "fiscal policies which have a direct impact on the total income and expenditure flow in the economy...will have to continue to be an important (if not the important) part of any appropriate monetary/fiscal policy `mix' applied in the South Africa economy" (Ibid:7).

It was clear that priority be given to political considerations if the policies are to work. "The importance of achieving and maintaining a high average rate of real economic growth in South Africa cannot be emphasised strongly enough. More than ever before, this country now needs economic and political policies that encourage investment, output and employment. The Reserve Bank remains firmly of the opinion that monetary stability is a pre-condition for optimal growth....But the basic long-term objective remains economic growth with rising standards of living for all sections of the population" (OGM,1985:13).

"An important question at present, of course, is to what extent economic expansion in the period ahead will be adversely affected by the abnormal socio-political conditions prevailing in South Africa at present, including the township unrest, the state of emergency proclaimed in certain magisterial districts and the intensified threats of economic sanctions against the country. Clearly these political developments have tended to neutralise the sound economic `fundamentals' in South Africa and have adversely affected overseas perceptions of the domestic economic situation. The result has been a net outflow of capital, a sharp depreciation of the rand and diminished growth prospects for 1986" (OGM,1985:14).

The new policy in practice

The monetary and fiscal measures that were introduced in 1985 were essentially in response to immediate pressures, aimed at improving the balance of payments situation, reducing overspending and inflation and developing conditions for economic recovery. The inability of the policy to deliver its objectives became increasingly clear as it responded to class struggle.

Despite a drought which was affecting agricultural output and a declining gold price, total spending in the economy was at a level which, according to the Reserve Bank, could not be sustained by current output and export earnings. Excess demand was heightening inflationary pressures and threatening to depreciate the value of the rand.

The Reserve Bank strategy was to focus on restrictions in the money supply. The Bank sought to reduce the rates of increase in the monetary aggregates, "after taking into account the persistent decline since 1980 in the velocity of circulation of these aggregates" (OGM,1985:6). From August 1984 to November 1984 (when the refinancing rates were lowered by 1 percentage point) the Reserve Bank kept its restrictive measures broadly unchanged until the unexpected rise of the US Dollar, the resultant sharp fall in the dollar price of gold and the net outflow of short-term capital combined to threaten a depreciation of the rand. The Bank subsequently restored its refinancing rates to the level of two months earlier and the banks' prime overdraft rate reverted to 25% and remained so until early May 1985.

Other monetary policy instruments employed by the Bank included public debt management and open-market operations. The 1985 Budget provided for a rate of increase of government expediture to only 11,4%, below the prevailing rate of inflation of around 16%. The `deficit before borrowing' was limited to R2 570 million (2.2% of GDP) To make this possible, a number of taxes were increased, including the general sales tax from 10% to 12%.

According to the Reserve Bank, "the restrictive monetary policy applied since August 1984 and the fiscal measures introduced in the March 1985 Budget have fully achieved their initial objective of curbing total private and public sector spending...excess demand or overspending has now been eliminated from the economy" (Ibid:8).

Measures were also introduced to attempt to transform the deficit of the current account of the balance of payments into a surplus. The current account changed from a deficit of R2,5 billion during the first quarter of 1984 to a surplus of R0,6 billion during the 4th quarter of 1984, R4,3 billion during the 1st quarter of

1985 and R5,4 billion during the 2nd quarter. "This turnaround... helped the economy to cope with the stresses and strains that developed on the capital account of the balance of payments during 1984 and the first half of 1985" (Ibid:9). According to the Bank, problems arose primarily as a result of an outflow of short-term capital primarily during the 4th quarter of 1984 (R1,8 billion) and the 1st quarter of 1985 (R2,8 billion). The cause of this was identified primarily as `leads and lags in foreign payments and receipts caused by the rise in the value of the US Dollar, the decline in the dollar price of gold and `the expectation that in such circumstances the rand would depreciate further'. Despite a declining net outward flow of short-term capital - R113 million in the 2nd quarter of 1985 - net security purchases by non-residents (1984: R1,2 billion, April 1985: R60 million) transformed into net sales of R108 million, R188 million and R200 million respectively!) The Reserve Bank attributed this partly to "disappointment at the failure of the gold price to rise strongly as the United States dollar began to depreciate against the other major currencies, and partly to unfavourable political developments" (Ibid:9).

The sudden decline in the exchange rate of the rand from over 0.53 American cents on 18th July 1985 to a low of 38,85 cents on 22 August was also seen by the Bank as "the direct result of new pressure exerted on the capital account by political developments" (Ibid:10).

To lay the basis for economic recovery and a higher growth rate, the Bank reduced its basic rediscount and related accommodation rates on 6th May 1985 with further subsequent reductions to a total of 5,75 percentage points. These reductions contributed to similar declines in the commercial banks' prime overdraft rates and in most other short-term interest rates.

The struggle to defend the rand

Perhaps the most eloquent response to the financial reforms came not from the public statements of politicians and bankers, but from the fate which befell the South African rand. The political and economic crisis which the state was attempting to overcome by introducing financial reforms deeply eroded the value of the currency. This development struck at the very root of the authority of the apartheid state. It was an immediate and concrete expression of the subversive consequences of heightening class struggle on the legitimacy of the state and its political and economic authority. In the collapse of the value of the rand in 1985, the same year in which the state had to consider the De Kock Commissions final recommendations on financial reform, was concentrated all forms of domestic and global class opposition to the apartheid state and the adjustments, both domestic and global, capital had to make in the face of this opposition.

In January 1985, the gold price dropped to below the $300 level for the first time in 2 1/2 years. At the same time, the value of the rand stood at $0.4895. The rise in the value of the dollar and the decline in the dollar price of gold set the conditions in which SA's location in the world economy required re-assessment and where the intensification of domestic political and economic crisis was reflected in a crisis of the monetary basis of the SA state. The extent of the decline in the value of the rand can be discerned in terms of its relation to the US dollar:

Table 5:
Value of the rand in terms of the US dollar on 23rd January 1985:

1979	1.1500
1980	1.2232
1981	1.3347
1982	1.0306
1983	0.9445
1984	0.7965
1985	0.4356

Source: Minister of Finance, Hansard 11 February 1985.

The anticipated consequences of this sharp decline in the value of the rand for capital were accurately captured by Raymond Parsons, Chief executive of Assocom: "Given the unfolding economic scenario both externally and internally, decision-makers in the private and public sectors are possibly facing the most serious year of stagflation (no growth combined with high inflation) in 20 years. The policy options are limited and the

Reserve Bank cannot be expected to support the rand indefinitely. The rand will remain volatile and the overall situation also suggests that the margin of error in 1985 is now small" (Cape Times,4.1.85) The strategic options all pointed towards the long-term rather than short-term tinkering with the financial system. The campaign for disinvestment, particularly in the United States, was focussing the attention of the international capital markets. New York City introduced disinvestment legislation in February aimed at forcing banks and firms to stop commercial transactions with South Africa.
The political consequences of the scenario sketched by Raymond Parsons were clear to the banking sector. The Barclays Bank Annual Review for 1985 was quite explicit as to the political imperatives of this critical moment for state and capital: "We would, in particular, wish to see expedited the elimination of restrictive and discriminating laws as well as the design and development of an appropriate constitutional framework through which participation of all South Africans in our political process can be secured."[7]
In New York the Morgan Guaranty Trust Company announced it would make no new loans to the SA government "until real progress has been made towards improvement of political, economic and social conditions for blacks and other non-whites in South Africa" (Cape Times, 1.4.85).

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[7] Barclays Bank Annual review statement by Basil Hersov, Chairman and Chris Ball, MD.Financial Mail 1.3.85.

Similar moves followed with other U.S. banks and in Europe.

While these moves were clearly a consequence of trade union and political pressure, there were prudent economic concerns as the Chief Economist of Morgan Guaranty, Rimmer de Vries confirmed: "It has been building for some time. The current troubles started at least six months ago when a number of banks, American and European, began to stop lending or cut back in one way or another. It was very clear at that time that South Africa was becoming a credit problem....There is a lot of uncertainty on the part of international lenders as to the political and economic future of South Africa and that is what led to the crisis. Where is South Africa going from here? It is far from clear where the country will be politically and economically even a few years from now. Contrary to popular belief, there was a lot more economics than politics involved in the American banks' actions" (Financial Mail, 13.9.85).
As a result there occurred a drop in the amount of risk capital foreign investors were prepared to invest in South Africa. Comparing interest payments to foreigners to the total dividend inflow, the Old Mutual reveals, "This ratio has increased from an average of 17 percent between 1965 and 1969 to 81 percent for the period 1980-1983. From a debt servicing point of view it is better to attract dividend-yielding investments instead of interest-bearing liabilities. Short-term liabilities

comprised on average 18.3 percent of total outstanding liabilities between 1956-1969. The corresponding figure rose to 21.1 percent for the period 1970-1979 and increased even further to 27.7 percent in the 1980s. At the end of 1984 roughly 40 percent of the outstanding foreign debt was...of a short-term nature." At the end of June 1984, 66% of SA's international bank borrowing were of a short-term nature compared to the average of 44% for a comparable economy (Cape Times 22.7.85).

The drop in the value of the rand, restrictive monetary policies and the high unemployment and inflation rates sharply reduced the living standards of workers and contributed to trade union militancy and organisation. This year was not only the year in which the biggest independent trade union was launched, it was also the year in which thousands more workers took strike action:

Table 6:

Strikes 1983-85:

	no.	workers	workdays lost
1983	336	64 469	124 596
1984	469	181 942	379 712
1985	389	239 816	678 273

Source: Race Relations Survey 1987/88

In August 1985, the Reserve Bank announced a cut in central bank lending rates, direct response to high unemployment and rising worker militancy. As De Kock confirms, "In the present recessionary conditions the situation calls for monetary measures to prevent the recent political developments from bringing about an undue contraction of money and credit accompanied by rising interest rates" (Cape Times, 20.8.85).

On the 1st September 1985, the Finance Minister, Barend du Plessis announced measures to protect a sharply depreciating Rand in the wake of decisions by certain foreign banks not to renew credit facilities to South African Banks. According to the Minister, "The large amounts involved in the subsequent withdrawal of funds placed severe additional strains on the capital account of the South African balance of payments and caused the rand to depreciate sharply against the most important international currencies." In order to reduce the effect of this on the foreign exchange market, the foreign exchange market and the stock exchange were closed between 28 August and 1 September. A package of measures was announced to come into effect on the 2nd September. "On the one hand, it will ensure the orderly management of a gradual reduction in the foreign debt of the country as a whole, at a rate more in line with what can be afforded in terms of the surplus on the rest of the of the balance of payments. On the other hand, this strategy will create the much needed scope for an easing in the restrictive monetary and fiscal policies currently in force." The measures included, among others:

1. a 4-month standstill period for the payment of foreign debt; and
2. the re-introduction of the Financial Rand system abolished in 1983 to avoid the stock exchange being used as a conduit for evading controls.

" The objective of the comprehensive strategy are to -

(a) create a stand-still period during which South Africa can negotiate in a responsible way with all parties concerned regarding the orderly payment of the foreign debt of the country;

(b) ensure that the surplus on the current account of the country's balance of payments will be used largely to meet the foreign obligations of all South African debtors in an equitable and orderly manner;

(c) discourage disinvestment by non-residents at the cost of the available foreign exchange reserves;

(d) facilitate an early resumption of domestic economic growth; and

(e) normalise South Africa's foreign financial relations as soon as circumstances permit."[8]

In December further exchange control measures were introduced to stop currency speculation. From December

[8] Text of the announcement made by the Finance Minister in Pretoria on 1 September and published in the Business day, 2 September 1985.

9, the Reserve Bank would pay mining companies for all gold bullion in rand on the day of purchase. Up to now the mines have received half their proceeds in rand and the other half in dollars. The half paid in dollars has allowed the mines to speculate on the foreign currency markets.

The new measures also make it mandatory for exporters who do not sell spot, to take out forward cover over their total export proceeds within 7 days of shipment thus closing the loophole which allowed exporters to speculate against the rand.
To the Reserve Bank these measures were necessary to protect the domestic economy and promote growth in the face of foreign perceptions of internal political problems: "...the post July capital flight and the resultant depreciation of the rand were not caused by unsound economic `fundamentals', and not by `over-borrowing', but by a marked deterioration in overseas perceptions of the nature, extent and possible consequences of SA's domestic political problems."

"...we have chosen to let the rand depreciate rather than to raise interest rates in an attempt to defend the exchange rate. The depreciation of the rand does, of course, put upward pressure on the consumer price index. This is most unfortunate, as it prevents us from reaping the full benefits of the elimination of demand inflation. But it does protect the gold and foreign exchange reserves and does stimulate domestic economic activity by raising the rand value of exports and protecting domestic industries against overseas competition. It therefore fits well into the present policy of promoting economic recovery and growth" (Business Day, 27.12.85).

These responses to monetary pressure by the Reserve Bank demonstrate the flexible and discretionary approach to the application of monetary policies that the De Kock framework sought to secure. Yet this framework was unable to secure the objectives of monetary stability and economic growth. Amidst the deepening political and economic crisis, the quest for economic and monetary stability was subverted by the very acts that aim to achieve them.

CHAPTER EIGHT

Crisis, class struggle and the restructuring of the apartheid state: 1986-1992

Adjusting to the crisis in the short-term has long-term implications

The restructuring of the financial system was part of the strategic agenda of the state to respond to economic pressure in the long term. The programme of legislative reform followed the De Kock Commission's recommendations to deregulate the financial system. However, the state's reform agenda remained constrained by immediate economic and political pressures. The intensification of the political and economic crisis which faced the apartheid state in the latter half of the 1980's put severe pressure on the financial system.[1] While the commitment to monetarist strategies was not wholly rhetorical, the financial measures employed were essentially of a short-term nature to respond to immediate crises which the state could not afford to avoid in the interest of longer term measures. Yet every short-term measure simply underlined the need for longer-term strategies including a restructuring of the political basis of the apartheid state. Both capital and labour pursued strategies in the second half of the 1980's, on the assumption that the apartheid state is not able to respond effectively to the crisis. Apart from lobbying government, capital continued its own independent political actions in favour of political liberalisation. Labour became increasing confident as the apartheid state appeared unable of maintaining it political dominance in the face of mass resistance The resources invested by the state to restructure its financial and monetary basis with the expectation that this would serve to de-politicise the economy and

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[1] The measures designed to de-politicise economic activity simply intensified the political and economic aspects of the crisis by extending regulation into areas not regulated before. The rhetoric of `economic liberalisation'- the purported intention of the financial restructuring - essentially amounts to closer and more systematic regulation of the economy.

therefore limit the politicisation of the organised labour movement came to nought. The collapse of the rand in 1985 was an important turning point. On the one hand it demonstrated the limitations of responding mainly to immediate pressures. On the other hand, and following on from this, the collapse of the rand put pressure on the state to broaden its restructuring programme to encompass further political reform.

Working class pressure on the state was sustained and increasing after 1985. The formation of COSATU in November 1985 strengthened militant opposition to apartheid rule. The combined organisational strength of COSATU and NACTU provided a national power base for an increasingly confident and combative working class which rendered ineffective many of the strategies of state and capital. The failure of the Wiehahn-Riekert reform strategies to impose limits on workers' struggles by attempting to confine their struggles within the limits of a formal industrial relations system also served to expose the failure of the political and constitutional reforms introduced in response to the crisis.

The failure of this attempt to address the crisis in a more strategic manner was of immediate significance to the future of capitalist accumulation in South Africa. It served to mobilise capital politically as never before in the search for a long-term resolution of the crisis that would safeguard the continuation of capitalist forms of accumulation while containing the political aspirations of the disenfranchised population within manageable limits. As a consequence~~, the~~ latter half of the eighties was not only marked by the intensification of working class struggles, but also by the intensification of the struggle by capital to find a long-term political solution.

COSATU and NACTU's support of economic sanctions deepened SA's isolation and prolonged the pressure on the rand. The monetary and fiscal strategy had to confront directly the immediate problems which arose with the intensification of political struggle. The Governor of the Reserve Bank described the situation confronting the South Africa state and capital in the following terms:

"The economic situation in South Africa during the past twelve months has been greatly influenced by socio-political developments. Events such as the social unrest, the state of emergency and the intensified threats of disinvestment and economic sanctions, have brought about a deterioration in overseas perceptions of the domestic political and economic outlook. Misguided and distorted as these perceptions might be, they have resulted in a withdrawal by foreign banks of credits to South African banks and other business enterprises, a net outflow of foreign capital in other forms, a depreciation of the rand, the imposition on 1 September 1985 of a `standstill' on the repayments due on the part of the country's foreign debt, and the reintroduction of exchange control over non-resident equity investments in the form of the financial rand system. By exerting an adverse impact on domestic business and consumer confidence they have also contributed to the sluggish conditions that have prevailed in the economy throughout this period."(OGM,1986:6) This description of the crisis identifies certain pertinent elements contributing to the conditions of crisis but fails to analyse their relationship to one another. In so doing, the Governor fails to identify more specifically the limitations placed on capitalist production and accumulation by working class struggles on the one hand and the structural imbalance in the domestic economy the basis of the chronic deficits in the balance of payments, on the other. What this reveals is a presupposition that `politics' as distinct from `economics' has intervened in the economy in such a way as to create `economic' problems. The state's response to crisis recreates the fetishished forms through which the crisis is perceived. What lies at the root of the politicisation of economic relations, however, are the forms of domination of the apartheid state. Any strategy to de-politicise economic relations would have to confront the question of the restructuring of the form and function of the state itself.

`Total Stategy': the apartheid state's response to crisis

The latter half of the 1980's witnesssed increasing efforts by the apartheid state to respond to crisis by introducing political reforms. With the accession of P.W. Botha to the leadership of the National Party and Prime Minister of South Africa in September 1978, the reformist wing of the party was able to consolidate itself. Botha initiated a wide-ranging counter-insurgency strategy which incorporated reformist elements new to National Party strategy. The origins of these measures can be traced to a White Paper issued by the Department of Defence in 1977 in which a call was made to formulate and coordinate a "comprehensive plan to utilize all the means available to a state according to an integrated pattern in order to achieve the national aims with the framework of the specified policies. A total strategy is, therefore, not confined to a particular sphere, but is applicable to all levels and to all functions of the state structure" (cited in Murray, 1987:15).

The distinctiveness of this new *total strategy* was the incorporation of direct, repressive measures with counter-revolutionary strategies of an economic and political nature requiring the coordination of military, economic and political functions of the state. "The *sine qua non* underlying the Total Strategy doctrine was the historical convergence of the common material interests of South African capital, the leadership of the ruling

National Party, and the upper echelons of the military establishment" (Murray, 1987:15). Reforms in monetary policy and the financial system in the 1980's should be seen in the light of this overall objective of the SA state.

Yet, as I have shown, the barriers to capital accumulation and production cannot be removed simply by financial restructuring, for money relations and the political order expressing such relations are inextricably linked. Increasingly, capital and the state sought to set the agenda for the struggle for political reform on their own terms. This was increasingly made possible by a `new consensus' within the ruling class as a result of a political transformation within the ruling Nationalist Party itself. Murray describes this process as a consequence of the transformation of class relations in SA: "The underlying cause for the shifting focus in white politics can be traced to the class transformation of South Africa and the class realignment of the white political parties. The National Party had evolved into a political vehicle that increasingly expressed the political vision of an emergent Afrikaner bourgeoisie gradually abandoning the specific alliance of class forces that supported its entry into poliltical power in 1948, the National Party leadership sought a *modus vivendi* with English-speaking professional and propertied classes and tentatively sought the political allegiance of a carefully nurtured black petty-bourgeois stratum in the Homelands and urban townships. This new constellation of class forces that came to dominate the National Party furnished a revitalised social formula designed to restore economic prosperity through market-propelled growth" (Murray,1987:61). Economic liberalisation and de-regulation, as core elements of a monetarist reform project, were accompanied by new, tentative, forms of political representation and the removal of certain racial discriminatory practices. These reform initiatives sought to achieve 5 main objectives:

1. removing the barriers to social mobility of the emergent black petty bourgeoisie;
2. encouraging the development of skilled black labour by relaxing restrictions of the geographical and occupational mobility of black labour;
3. improving the conditions of the urban black residents including the establishment of `Community Councils' aimed at providing conditional political rights on a local level to township residents;
4. restructuring the central political apparatus to allow for the participation of `coloured' and `indian' political representatives; and
5. eliminating those racially-discriminatory measures seen as responsible for tarnishing SA's image abroad.

Subsequent developments, however, demonstrated that these political measures were not far-reaching enough to constrain and channel the popular struggle for political transformation into one where the state set the agenda for political change, because "the economic well-being of the Afrikaner bourgeoisie and its petty-bourgeois political allies depended to a large measure upon extensive state regulation, subsidies and patronage, thereby ruling out any wholesale elimination of the core structures of *apartheid* rule" (Murray,1978:61). The well-oiled machinery of the apartheid state remained intact in its essentials, its reform project ham-strung and the popular movement unconvinced by its reform endeavours.

However, these reforms set in motion new social forces, making possible wider and more intensive self-organisation and political mobilisation of the dominated classes.

The Botha reform strategy provoked widespread mass resistance, which culminated in the formation in 1983 of the National Forum and later in the same year, the United Democratic Front. These two organisations mobilised opposition to the new constitutional dispensation and the `Koornhoff Bills', which provided the framework for legislative reform of the influx control laws. These two organisations marked an important moment in the mass opposition to the apartheid state. Unlike the earlier waves of political opposition, the early 1980's saw a more open, protracted and determined mass mobilisation sustained by greater coordination of worker, youth and civic struggles.

Capital flight and the continuing crisis of the rand

Total strategy sought to strike at the root of popular resistance by coordinating the power of capital and the state against the activities of the trade union movement and other popular organisations. The intensity of the repression and the resistance to it created a state of seige which had a direct impact on the economy. Political instability encouraged capital flight, the continuing decline in the value of the rand and gave a boost to the sanctions campaign. Total Strategy was aimed primarily at tackling the immediate crisis facing the apartheid state. The reformist elements of the strategy were not as yet fully developed. The same short-termism predominated in the strategy to overcome the financial crisis.

The monetary and fiscal measures applied by the Reserve Bank and the Treasury in the financial year ending March 1985 were based on two broad strategies: firstly, to limit inflationary overspending and reduce the balance of payments deficit; and secondly, to initiate legislative reforms in the way the banking system was regulated. The legislative reforms largely followed the recommendations of the De Kock Commission. Amendments made to the Banks Act were intended to facilitate movement towards a cash-reserve system of monetary control. The capital requirements of banks would not be based on the volume of their liabilities to the public, but rather on a differentiated formula based on the nature and risk of their various assets. This is in line with international banking reform and was aimed at making SA banks more compatible with the international banking system. These measures also extended the powers of the Reserve Bank to regulate the international operations of banks.

New building society legislation in 1986, following changes to the asset requirements of banks, allowed for greater flexibility in the composition of their assets and liabilities. This brought the legal regulation of building societies up to date with what was happening in practice where competitive pressure resulted in their activities increasingly overlapping with the banks. The fact that building societies were also now required to conform to the same cash reserve and liquid asset requirements as banks, rationalised the legislation regulating deposit-taking institutions as a whole.

These regulative reforms reflected the transformations taking place in the financial sector, particularly in the area of financial services. Banks were now operating in the money and capital markets trading in securities and other related financial instruments. The range of their services were extended to include home mortgage loans. On the other hand, building societies were providing banking services and non-deposit-taking institutions (eg. insurers) were beginning to provide credit to corporate borrowers. Monetarist reform reflected and responded to the intensification of competition within the financial sector and the tendencies breaking down traditional institutional barriers. This fragmentation of financial institutions paralleled similar tendencies in the international banking system. These tendencies clearly threatened to make obsolete existing state regulation of the operations of the financial sector. Legislative reform therefore was aimed at re-imposing state regulation by rationalising and modernising the legislative framework in line with international banking practices. To facilitate regulation, the Reserve Bank formally assumed responsibility for bank and building society supervision in April 1987.

The critical position of the rand remained a major feature of the crisis confronting the South African state. The restrictions on outward capital movements - the standstill in the repayment of foreign debt and the re-introduction of the financial rand system - had important implications for growth in the domestic economy. Following the recommendations of the De Kock Commission, the setting of specific target rates of growth for one or more of the money supply aggregates was accepted by the government. The target rate, announced on 17 March 1986, was set in the form of a tolerance range for the rate of increase in the broad money supply, M3, of between 16 and 20 per cent between the 4th quarter of 1985 and the 4th quarter of 1986. The target range chosen "was considered high enough to accommodate a projected acceleration in the real economic growth rate during 1986 and into 1987, but low enough to ensure that the expected decline in the rate of inflation would not be frustrated by the emergence of new demand inflationary pressure"(OGM1986 8). Accordingly, the Reserve Bank reduced its Bank rate eleven times, with reductions ranging from from 21,75 to 10,5 per cent. The short-termism implicit in these measures follows from a perception of the SA crisis as the result of international rather than domestic pressure. The perception was that the domestic situation was only important to the extent that it was creating anxiety among foreign investors.

The imposition by the SA government of a partial debt standstill and the reintroduction of exchange control over non-residents in September 1985 was the result, according to the Reserve Bank, not of a debt problem from `overborrowing' but rather a `liquidity' problem arising from "a sudden deterioration in overseas perceptions of the South African socio-political and therefore economic situation" (OGM1986:10). Consequently, the depreciation of the rand "has greatly

assisted the South African economy in adjusting to the exogenous economic and political shocks to which it has been exposed...It has served to maintain the rand value of the gold output and of many other South African exports at a high level, thereby also boosting tax revenues. At the same time, it has provided additional protection to many domestic manufacturing firms competing with imports. It has also served to strengthen the balance of payments on both the current and capital accounts and to protect the official gold and foreign exchange reserves"(OGM1986 :12).
The Reserve Bank believed that "in many important respects the scope now exists for a renewed cyclical upswing in the short term and a considerably higher real average rate of growth in the medium and long term", but recognised a significant problem: "And yet the scope for more rapid economic expansion is not being utilised to anything like its full potential. In a situation in which economics and politics are inextricably entwined, the required spark of business and consumer confidence is still missing "(OGM1986 p.13,14).

Domestic and international support for a campaign of disinvestment and economic sanctions struck at the root of state and capital's effort to overcome the economic consequences of SA's changing relationship to the world economy and the struggle for growth in the domestic economy. Financial sanctions in particular was especially deleterious to the South African economy, as the Governor of the Reserve Bank confirms: "What is, however, having an adverse impact on the South African economy is the de facto existence for more than a year now of financial `sanctions'...This politically induced pressure on the capital account of the balance of payments is affecting the South African economy more adversely than trade sanctions are likely to do. It implies some combination of a weaker exchange rate, a higher level of interest rates, a higher inflation rate and a lower rate of economic growth than would otherwise have prevailed." As a result SA was obliged to run a large current account surplus as long as the capital outflow continued. This in itself inevitably restricted the prospects for longer-term economic growth. As the political crisis escalated throughout the 1980's capital flight continued to plague the South African economy. The financial constraints exercised by foreign financial institutions, as a result of the intensification of social unrest and the consequent deterioration of confidence in South Africa's political and economic prospects, resulted eventually in the imposition by foreign governments of financial and trade sanctions. SA was denied normal access to loans and credits from international financial institutions and central banks and was also required to repay credits previously obtained from the IMF. The single most significant consequence to the economy was the massive net capital outflow of R15,5 billion (6% of GDP) during the two years 1985 and 1986. The net outflow of non-reserve-related capital in 1985 and 1986 amounted to R15,3 billion. The outflow declined in 1987 and the first quarter of 1988 but then increased to R2 billion in the second quarter of 1988 with the sudden appreciation of the US Dollar and the decline of the dollar-price of gold.

The international sanctions campaign also had important consequences for domestic fixed investment. In responding to the crisis domestic capital, despite high liquidity, was reluctant to invest in plant, equipment and construction because there was no clear strategy shared by the state and capital. The real decline in domestic fixed investment reflected a growing uncertainty of the long term profitability of investing in fixed capital. Consequently excess liquidity was employed rather in speculative investments in the financial markets.

The lack of expansion of fixed investment had important social consequences. Rising unemployment was contributing to political and labour instability. But the ability to implement job creation schemes was hampered by the lack of expansion in manufacturing short of applying pressure on capital to expand the rate of fixed investment by introducing new legislation. The state's strategy to reduce unemployment was hampered not only by the reluctance of capital to invest in industrial expansion but also by the state's reluctance to undermine capital's profitibility in the light of growing pessimism of the state's ability to overcome the political and economic crisis. The Reserve Bank followed a cautious approach: "While certain adjustments to taxation and financial legislation affecting those institutions might well be desirable for other reasons, attempts to force them to invest in low-earning high-risk directions could undermine their financial soundness and inflict harm on the economy"(OGM1986 15). The state employed a twin-track policy of applying short-term expansionary monetary and fiscal strategies on the one hand and longer-term economic strategies comprising inward industrialisation, export promotion, import substitution and rural development on the other.

But the Reserve Bank acknowledged the inadequacy of these measures. As the Governor ackowledged, "By themselves, however, they cannot provide an adequate solution to the present difficulties. Unless accompanied by actions on other fronts, it is doubtful whether they can overcome the harmful effects of the existing financial `sanctions' and prevent the irrational and emotional forces behind the present sanctions and disinvestments campaigns from transforming South Africa into some form of `seige economy'(OGM1986:15).

As the Bank concurs, a continuous capital outflow accompanied by a seige economy is nothing but a condition likely to intensify the economic crisis: "A

seige economy would inevitably tend to become a tightly regimented one subject to a maze of direct bureaucratic controls. This would limit the scope for private enterprise and effective competition to promote economic development and to raise standards of living. In the final analysis, the combination of continuous capital outflow and a seige economy would be bound to have adverse effects on economic growth and stability"(OGM1986:15-16).
In considering these options, the Bank concludes that "in addition to the appropriate short and long-term economic strategies, any formula for the restoration of confidence and prosperity in South and Southern Africa must include the continuation of the Government's programmes for maintaining law and order and for comprehensive further political and constitutional reform" (OGM1986 :16).

The Reserve Bank's strategies for adjustments to the SA economy comprised a combination of exchange-rate depreciation, an increase in inflation, a slower growth rate and maintaining a lower average standard of living. As result of these measures a balance of payments situation improved and the reserves were strengthened.

The rise in the gold price from an average of USD 317 per ounce in 1985 to USD 368 per ounce in 1986 contributed towards the improvement in the economic situation.

But it was the "successful maintenance of law and order", according to the Reserve Bank, which enabled the economic adjustment measures to be applied more effectively. In a situation of increasing instability it gave overseas investors confidence in the SA state's capacity to maintain a stable political order in SA.

It soon became clear however, that maintaining a stable political order by force without political reform would not sustain overseas investor confidence in SA. This applied equally to domestic capital, aware of the political instability that repression produces. While the potential for economic growth emerged in 1986-7, the recovery remained sluggish.

The Reserve Bank Governor expressed the frustration of the state's inability to induce domestic ~~and foreign~~ and foreign investment for industrial expansion: "Why has the upswing been so sluggish? Why has it lost momentum on at least two occasions during the past two years? The balance of payments on current account continues to show a large surplus; the gold and foreign exchange reserves have doubled over the past year; the foreign debt situation is under control; the money supply is not rising too rapidly; interest rates are not only low but, in most cases, negative in real terms; with the support of the Reserve Bank the banks and building societies are ready, able and willing to expand their credit; share prices and stock exchange turnover have set one record after another during recent months; fiscal policy is expansionary; surplus capacity exists in many sectors of the economy; unemployment is relatively high; and the population is rising at over 2 per cent per year in total and at a much higher rate in urban areas. and yet the inducement to invest and the propensity to consume are not strong enough to lend real momentum to the economic upswing. Money is chasing paper in the financial markets instead of bricks, mortar and steel. Why? (OGM,1987:13)

The frustration of state reform strategies - propelled towards a strategic restructuring by mass mobilisation against its authority and widespread workplace instability - has its roots in the propensity of capital to seek the highest returns in as short a time as possible. In a situation where the future of capital is uncertain, excess liquidity moved towards short-term speculative investments in the financial markets rather than investment in industrial expansion. As a consequence manufacturing production stagnated, stoking further the flames of political instability, industrial unrest and unemployment.

The Economic Advisory Council, a body appointed by the state, recommended a package of measures including labour reforms, export promotion, industrial protection, inward industrialisation, rural development, deregulation and privatisation. The Reserve Bank, in

broad agreement with the Council, emphasised in addition, the importance of tax reforms. Above all however, the Reserve Bank remained concerned with the threat posed to the domestic economy by political conditions: "There is little that monetary and fiscal policies can do to extricate economic decisions from the political considerations with which they are currently entwined in South Africa. That is the reality that has to be recognised"(OGM1987:16).
The combined effect of the sanctions campaign, trade union struggles and the political campaign against the apartheid state, exposed the limitations of the Botha reforms and the inability of monetary and fiscal policy to extricate South Africa from crisis.

Inevitably, domestic economic conditions remained relatively stagnant. The decreased dollar price of gold, the drought, weak commodity markets and the accelerating outflow of capital resulted in the depreciation of the exchange rate and an increase in the rate of price inflation between 1985 and 1986. To overcome weakening economic conditions, the state opted for financial measures that would promote export rather than protect weakening living conditions. The Governor explains the decision to take this course of action as following directly from the political conditions threatening the state. Its response to political instability was to maintain conditions favourable to capital even if this

meant a decline in the average standard of living:
"The economy might conceivably have adjusted to the changed circumstances with less of an increase in the general level of prices. But this would have required quite severe deflationary fiscal and monetary measures, which would have exacerbated the existing recessionary conditions and further undermined business confidence. A policy of adjusting mainly via deflation would therefore have been unsuitable in the prevailing abnormal socio-political circumstances" (OGM,1988:8). This policy was also aimed at increasing long-term domestic investment particularly in industrial expansion.

The SA state's solution to improve adverse economic conditions included:
1. Short-term expansionary monetary and fiscal strategy; and
2. Long-term economic strategies: inward industrialisation, export promotion, import substitution, manpower issues, rural development and `the role of government in a market system in which private initiative and effective competition have important roles to play'. State economic policy was still largely operating within an interventionist framework. It was unable to employ monetarist deflationary strategies.

All these measures depend on the extent of political reform - as the Bank itself acknowledged: "in addition to the appropriate short and long-term economic strategies, any formula for the restoration of confidence and prosperity in South and Southern Africa must include the continuation of the Government's programmes for maintaining law and order and for comprehensive further political and constitutional reform"(OGM1986:16).

It is this inextricable link between economics and politics, and therefore the intensification of class struggle in a situation of economic crisis that also placed presure on the state to adjust its fiscal policy. New fiscal measures included (on the revenue side) the early repayment of loan levies, reduction in income tax rates and in the import surcharge, and adjustments to the taxation of fringe benefits and (on the expenditure side) provision for increased outlays "including employment creation, labour training, the promotion of small business enterprises, drought relief, alleviation of social distress, the maintenance of order and stability, and constitutional, economic and social development"(OGM1986:9).

These fiscal measures highlight the `carrot and stick' approach that has been the feature of the reform process hitherto. As the independent trade union movement gain in confidence and organisation, the rising aspirations of workers needed to be channelled into a direction that remained consonant with the collective bargaining machinery put in place by the Wiehahn reforms. This strategy did not succeed in containing workers' struggles within the economic sphere. Rather, the independent trade union movement gave further impetus to the political forms of the class struggle. While the state attempted to alleviate immediate pressures arising from the economic crisis through taking steps to reduce unemployment and increase social welfare, it became increasingly apparent that longer-term economic and political strategies were required.

Throughout the 1980's we witnessed the intensification of the struggle for reform. As we have seen through the largely unsuccesful efforts of the Reserve bank to effect long-term strategic adjustments to the domestic economy and its relation to the international economy, the state's ability to restructure is severely curtailed by the limits imposed by working class struggles. The Wiehahn and Riekert reforms of the early 1980's, as we have shown earlier, failed to contain working class struggles and continued to limit the ability of the apartheid state to restructure the political and economic conditions threatening capital accumulation. But the collapse of the rand in 1985, the application of financial sanctions and continuing political and industrial instability, forced capital and the state towards even bolder moves in their effort to restructure the political basis of capital accumulation in South Africa. Pressure intensified on the state to move towards more radical political strategies, not as an alternative to monetarist strategy but as a complementary condition for its success.

3. Class struggle and the defeat of `Total Strategy'

Taking the reforms further however meant moving away from the `Total Strategy' doctrine. Working class resistance to it was critical in its defeat. The organisation of mass struggles in this period was closely tied to the burgeoning independent trade union movement which added to the populist political traditions a new element of worker unity and democratic accountability. With the formation of the Congress of SA Trade Unions in November 1985, the trade union movement played an increasingly central role in the mobilisation of political opposition. This had important strategic consequences for labour, capital and the apartheid state.

The political profile of SA labour gave added impetus to its economic struggles at a time when the economic crisis was at its worst. Labour sustained the link between politics and economics at precisely the time when capital and the state were devising strategies to separate them. Labour put on the agenda of the anti-apartheid struggle more forcefully the possibility of socialist solutions to the South African struggle and heightened the anxieties of the ruling class of the impending threat to the capitalist social order. Labour also imposed limits on the implementation of monetarist strategies to the economic crisis, particularly the de-regulation and privatisation measures. The increasing international profile achieved by the independent labour movement intensified the international sanctions campaign.

The latter half of the 1980's was characterised by an unparalleled escalation of industrial conflict. The number and intensity of strikes increased dramatically between 1985 and 1987:

Strikes, 1985-1987

Year	Strikes	Workers	Workdays lost
1985	389	239 816	678 273
1986	793	424 340	1 308 958
1987	1 148	591 421	5 825 231

Source: Race Relations Survey 1987/88:667

Capital's response to labour militancy took the form of defending the legitimate rights of collective bargaining in the face of government attempts to suppress trade union militancy. Capital was concerned with the threat to their long-term interests of industrial turbulence and SA's deteriorating relationship to the international economy and sought to distance themselves from the repressive actions of government while campaigning for the urgent application of the government's stated objective of liberalising the domestic economy. According to the Standard Bank, "The strategy to be implemented has to contain political and economic elements. It is first necessary to reduce the level of domestic unrest and to respond flexibly to international pressure. With this accomplished, attention can turn to the economy...great opportunities exist for restructuring via particularly deregulation, privatisation and finding a new export orientation...Responding to the threat of sanctions by moving towards a siege economy would merely exacerbate current problems" (Standard Bank Review, August 1986:1). In responding to the crisis, Standard Bank emphasised the political importance of implementing political and economic restructuring in order to widen the access of black people to the economy: "The nature of political adaptation required demands a thoroughgoing programme of job creation and a significant improvement in the economic position of the black section of the population. If this is to succeed the economy's structure will have to change significantly in order to take account of new circumstances in the international marketplace and domestically, of a new and different set of priorities...merely stimulating growth within the present structure of the economy would not meet with the country's longer term requirements" (Ibid:2). What emerged from this position is a stronger commitment to more far-reaching political reforms and the implementation of measures to de-regulate the economy and remove the restrictions hampering the involvement of black entrepeneurs in the domestic economy.

The commitment towards deregulation was accompanied by calls for greater privatisation of state assets. Privatisation and deregulation were essential strategies in responding to the long-term threat facing capital in South Africa: "Privatisation has two advantages - first, it opens up to private enterprise areas of activity that were previously preserves of government. In that way it would allow for greater efficiency and a redistribution of economic control and earning power. Second, it would provide government with funds to pursue other aims - in housing, law and order, education, training, defence, where the needs are great" (Ibid:3) and thirdly, it would remove from state control i.e. de-politicise certain aspects of the state's activities. Capital agitated for the urgent implementation of these strategies. Its concerns were graphically expressed by Dr Zach de Beer, an executive director of the Anglo-American Corporation:

"There is a very real danger that they [black South Africans] may wish to throw out the baby of free enterprise with the bathwater of apartheid. It behoves every committed supporter of free enterprise to start now, working to bring the benefits of the system more and more within the reach of our black citizens, so that they too may become believers in it" (quoted in Race Relations Survey 1987/88:387). In July 1987, representatives of the reforming wing of capital, including Dr Zach de Beer, took a calculated step and met representatives of the African National Congress in Dakar, Senegal.

The pressure labour exerted on capital at the workplace was paralleled at the level of the state in the daily street battles in the townships. Instead of stability and economic growth, the Botha reforms provoked renewed unrest despite the continued imposition of a state of emergency, declared in June 1986. In February 1988, restrictions were placed on the political activities of COSATU along with the effective banning of the activities of 17 other extra-parliamentary organisations. These restrictions on labour through the coercive powers of the state was accompanied by legislative efforts first initiated in 1986 to devise a new Labour Relations Act to cut back on the gains made by organised labour since the Wiehahn reforms. While these efforts to restrict the class power of labour continued, the Botha government's reform initiatives appeared to be in tatters with the continuing escalation of political instability and the emergence of a leadership crisis within the ruling National Party. At the 1987 general election the NP lost significant support in the Cape to the Independent Movement, a breakaway left faction of the NP. In the Transvaal the Conservative Party routed the NP in many areas. The NP did even worse in the municipal election in 1988. The continuing threat of the sanctions campaign and the arms embargo, which contributed to the military debacle of Cuito Cuanavale, in Southern Angola, contributed to the looming crisis in the ruling party. In February 1989, F.W. De Klerk took over the leadership of the National Party. A month later the NP Federal Council agreed to a resolution uniting the posts of State President and leader of the National Party against the wishes of P.W. Botha who retired soon after, calling an election in September and thus opening the way for De Klerk to succeed him as State President.

The way was cleared to move away from the `Total Strategy' doctrine and take the reform process a step further. In October 1989, eight long-term political prisoners, senior members of the ANC and the PAC were released. On the 2nd February 1990, De Klerk announced the unbanning of the ANC, PAC, SACP and the lifting of the restrictions on 33 organisations in terms of the state of emergency. A week later, Nelson Mandela was released. In this way conditions were established for a new phase of political reform.

The limits of the apartheid state's reform strategy

Immediate pressure on the domestic economy conditioned the state's efforts at long-term restructuring of the financial system. The short and medium term strategies applied, in response to immediate pressures, remained inadequate because of continuing structural deficiencies in the South African economy. This had immediate consequences for the ability of the state to respond to working class pressure by extending social reform.

In the period 1984-5, the state's strategy to overcome crisis had been to combine loose monetary policy with fiscal expansion resulting in an increase in private expenditure. As a result recessionary conditions in 1985-6 were followed by expanding real GDP in 1987 and 1988, from 0.3% in 1986 to 2.1% and 3.2% in 1987 and 1988 respectively (see Ovenden and Cole,1989:43). In principle, medium term objectives have been to reduce the rate of inflation and to keep the fiscal deficit low. However, as Ovenden and Cole show, in practice attempts were made to maintain employment growth through fiscal expansion and monetary policy was used to influence the rate of growth in the short term by keeping interest rates low. Consequently, this application of policy "mainly served to highlight major areas of persistent economic vulnerability. The two most important of these are the fragility of the current account surplus...and the level of domestic savings and investment...The weaknesses in these two areas of the economy are what cripples South Africa's capacity for sustained economic growth" (Ibid:45-6). A rapid rise in domestic growth puts pressure on the balance of payments by producing a rise in imports putting the current account into deficit until such time as domestic demand is curtailed. "The lesson was reasonably clear: the government had employed expansionary demand management policies to stimulate economic activity in the wake of the economic and political events of 1984 and 1985. However, these policies proved insufficient on their own to create sustainable GDP growth in excess of about 2.0% without exerting pressure on the current account of the balance of payments...Normally any reasonably healthy economy would make up the difference through its capital account...South Africa, however, could not follow this path because it had been forced to become a net exporter of capital" (Ibid:51). As a result, South Africa's low growth rate is a function of its inability to maintain a current account deficit because it still had to service its debt repayments despite limited capital-inflows. This had immediate implications for the ability of the South African state to finance social reforms and keep its expanding population employed.

The economy had been unable to stem rising unemployment rates. Between 1981 and 1987, unemployment among the urban black population rose from 7.7% to 15.9%. The historical legacy of the apartheid state's restrictions on labour mobility of black workers, lack of training facilities for black workers, investment in capital-intensive production because of the scarcity of skilled-labour, all contributed to a situation inhibiting the creation of employment and the ability to combat unemployment at a time of rapid population growth.

Negative real interest rates remained a damper on savings and therefore on domestic investment. Regulation had ensured that domestic saving was largely directed to investing in public sector debt. The tax system ensured that the larger proportion of domestic saving was done through insurance companies and pension funds, both required by law to invest in public sector debt.

Restrictions remained on access by black entrepeneurs to commercial loans in order to establish their own businesses.

Despite the relatively low interest rates, all these conditions contributed to the decline of real gross domestic investment from 1982 to 1987. Political instability had increased the risk for domestic investment. The absence of a long-term political strategy acceptable to domestic capital inhibited investment. This refusal to invest was "becoming a progressively more binding constraint as the stock of capital wears out and becomes obsolete, and as the numbers of the unemployed grow ever larger" (Ovenden and Cole,1989: 57) On the other hand, public sector expenditure continued to rise as a threatened state sought to counteract the economic consequences of its own policies and, in so doing, ran large budget deficits. The burden of this fell on the tax system and the public sector borrowing requirement. Taxes rose throughout the eighties. The double-digit inflation rate over the decade was a further constraint on domestic investment.

It was not surprising that short-term efforts to boost export revenue had been unsuccesful given the economic conditions outlined above. The ability of the South African state to overcome economic and political crisis through social reform measures remained limited. Other measures would have to be sought to encourage growth in the economy. Only strategic medium and long-term measures aimed at a restructuring of the economic and political system could begin the process whereby the apartheid state and the class relations of which this state is an expression, can begin to reconstitute itself in an attempt to overcome the contradictory relations on which it is based. A major part of this restructuring is the restructuring of the financial system itself.

Restructuring the financial system

The pressure for restructuring the financial system grew stronger after 1985. The monetary and financial policy was still not working. The changing relationship with the international economy after the debt standstill resulted in a new set of conditions constraining the financial system and which had a direct impact on the domestic economy. The withdrawal of foreign loan finance meant that the current account of the balance of payments had to remain in surplus at all times even during an expansionary phase of the business cycle. This meant allowing for a growth rate lower than normal. At a time when the economy required a net inflow of capital for its developmental needs, the economy was forced to export capital instead.

There is an important interrelationship between the domestic economic developments and the balance of payments that arises from the structural features of the domestic economy. The Governor of the Reserve Bank, argued that "In the case of South Africa during the past year, there can be no doubt that the substantial rise in imports and, to a lesser extent, also the disappointing performance of exports, were the direct result of the inordinate increase in total consumption and investment spending, financed in large measure by excessive increases in bank credit and the money supply. These domestic excesses constitute the real problem - the decline in the current account surplus was largely a consequence or symptom of the underlying domestic situation." But, he argues further, "This in no way detracts from the fact that in South Africa's special circumstances the continued net outflow of capital does constitute an independent `balance of payments constraint', as it is principally the result of the country's strained international relationship and not of domestic economic policies or developments, Given this constraint, however, it is still true that the condition of the rest of the balance of payments remains closely related to domestic economic developments and policies" (OGM1988:10-11).

The domestic economy showed an improvement in 1988. A rise in consumer and investment spending increased gross domestic expenditure Real GNP increased at an average annual rate of 5% from the 2nd quarter of 1986 to the 2nd quarter of 1988. To the Governor of the SARB, this was a consequence of expansionary monetary and fiscal policies which had stimulated the domestic economy. To him the renewed confidence displayed by domestic capital could partly be attributed to "combining the maintenance of law and order with political reform" (OGM1988:7).

The period also saw a substantial rise in bank credit and money supply reflecting an increase in credit extended by banks and building societies to the private sector and a further decline in the rate of inflation. The Reserve Bank saw this as a vindication of its monetary policies over the previous years, arguing that " In retrospect it is clear that the exchange rate depreciation and the accompanying temporary acceleration in the rate of price inflation during 1985 and part of 1986 formed a vital part of the unavoidable adjustment which the South African economy had to make during that period in response to (a) the lower dollar price of gold, weak commodity markets and the drought, and (b) the heavy outflow of capital caused largely by socio-political developments. To effect this adjustment, which inevitably entailed some decline in real income per head of the population, South Africa had to export more and import less, and the depreciation of the rand helped to bring about the changes in relative prices that were necessary to this end" (OGM,1988:9). The decline in real income however was at the expense of the working class who suffered the worst effects of the high inflation rates. To the state, this was a necessary price to pay to `get the economy right'.

However, the improvements in the economy were short-lived, as the effects of the structural imbalances in the economy began to re-emerge. The adjustments made by the Reserve Bank proved inadequate for the maintenance of long-term economic stability. The dependence on imported capital goods and the consumption patterns of the rich put great pressure on the capital account of the balance of payments. " In the present international political climate the capital account remains the achilles heel of South Africa's balance of payments. The net outflow of non-reserve-related capital in 1985 and 1986 amounted to R15,3 billion in total. It then declined to R3,1 billion during 1987 and to a mere R0,7 billion during the first quarter of 1988. During the second quarter of 1988, however, the net capital outflow increased to about R2 billion, most of which occured during the last three weeks of June" as a result of the sudden appreciation of the US$ and the decline in the dollar price of gold (OGM,1988:9).

The surplus on the current account declined in 1988 and the first half of 1989 from R6,2 billion(3,7% of GDP) in 1987 to only R2,9 billion (1,5% of GDP) in 1988, and to the annualised level of R2,3 billion (1,1% of G2DP) in the first half of 1989 due, essentially to the rising level of the rand value of merchandise imports.

The favourable position of the capital account of the balance of payments during 1987 and the first quarter of 1988 was not sustained. The total outflow of non-reserve-related capital rose from R3,1 billion in 1987 to R6,5 billion in 1988 and amounted to R2,9 billion in the first 6 months of 1989. The year 1988 was the first year since 1985 in which the capital outflow exceeded the current account surplus.

The effective exchange rate declined from the beginning of 1988 to 24 August 1989 by 20,4%. The decline of the rand in terms of the dollar during the same period, amounted to 30,3%. South Africa's total gross gold and foreign reserves declined, on balance, from R8,7 billion (US$4,2 billion) at the end of August 1987 to R8,2 billion (US$3,9 billion) at the end of March 1988 and further to R7,4 billion (US$2,7 billion) at the end of June 1989.

The deterioration in South Africa's terms of trade and higher real net factor payments to the rest of the world caused a substantial reduction in the real gross national product.

Institutional reform and changes in legal regulation of the financial sector

Overcoming the structural deficiencies of the financial system requires institutional and regulative reform of the financial system. State strategies for the restructuring of the financial system had been under consideration since the De Kock Commission's inquiry started in 1978. As a result of the Commission's work, regulation of the financial system had been under constant review. The Final Report of the Commission, released in the year the rand collapsed on the foreign exchanges, provided the framework within which the state was able to respond to the monetary crisis by institututing legal and administrative reforms of the financial sector

In April 1987 the Reserve Bank began assuming responsibility for bank and building society supervision. This step became necessary as a result of the changes that took place in the financial services sector. Competition within the industry had propelled banks into the money and capital markets as active traders in securities and other related instruments. Many banks had extended the range of their products and techniques including home mortgage loans. Building societies in turn had increasingly moved into traditional banking business. Non-deposit-taking institutions (eg insurers) had developed quasi-deposit products and were engaging in the provision of credit to corporate and other borrowers.

These developments had important implications for financial regulation and administration. They provided the immediate justification for the restructuring of the financial sector. Firstly, the Reserve Bank was concerned that the new risks accompanying these developments do not threaten the financial integrity of deposit-taking institutions.The Reserve Bank made adjustments to the prudential requirements. From the end of 1986, banks had to comply with new asset-based capital requirements. Secondly, in a situation of intensifying competitive pressure, mergers and cartelisation, blurring forms and overlapping functions of institutions active in the financial services sector posed a direct threat to the smaller banks. In its role as lender of last resort and as overall coordinator of financial institutions, the Reserve Bank was concerned to maintain a `level playing field' for the different classes of financial institutions. Lastly, the market in new instruments, such as options and futures, requires appropriate administrative and regulatory measures.

In February 1988 the government announced new economic initiatives in response to the threat posed by the monetary crisis on the apartheid state. The government announced a new commitment to reduce government expenditure, to scale down the share of the public sector in the economy, to reduce the budget `deficit before borrowing' as a percentage of gross domestic product, to proceed with privatisation and deregulation and to proceed with the tax reform proposals of the Margo Commission. From early March 1988, the Reserve Bank gradually tightened its monetary policy in view of a sharp increase in bank credit and the money supply. The Bank attempted to moderate increases in interest rates by expanding its own net domestic credit by rediscounting liquid assets or extending overnight loans and by providing forward exchange cover.

The South African Reserve Bank Act of 1989 consolidated and rationalised the legislative framework defining its role and powers. The primary objective of the Bank was aimed at pursuing "monetary stability and balanced economic growth in the Republic". To achieve this, the Bank planned to influence total monetary demand through control over the money supply and over the availability of credit (OGM,1989). The Act enshrines the full scope of the Reserve Bank's powers in one piece of legislation, incorporating for the first time the functions of the Mint. The Act also empowers the SARB to investigate companies not registered in terms of the Banks Act, but which are carrying on the business of a banking institution. This power was extended to the SARB initially in an amendment to the Banks Act in 1988 when it was found that companies were circumventing the exchange control regulations through over-invoicing of imports and other ways of avoiding exchange control.

On 1st February 1991, The Deposit-taking Institutions Act came into effect complementing the new legislation rationalising the powers of the Reserve bank. The Act creates a uniform legal framework within which the state could regulate all deposit-taking institutions based on an equity-financed structure (banking institutions, building societies and discount houses). The strategic significance of these legislative reforms lies in facilitating integration with the world economy:

"With the implementation of this Act, South Africa has placed itself ahead of most other countries in the world with its approach towards banking supervision. It also laid the necessary foundations for the creation of a sound banking system that will be able to play its important financial role in future developments, both locally and abroad. In line with the easing of the political situation, South African banks are already beginning to show interest in establishing their own representation in some of the major international financial centres, and in extending their activities into other African countries" (OGM,1991:16).

With this Act, legislative restructuring of all deposit-taking institutions was largely completed. The Act rationalised the relationship of all private financial institutions and brought them into line with banking operations internationally. This facilitated the expansion of SA banking operations regionally and internationally. In this way the restructuring of the financial sector enabled the domestic economy to take a further step in its integration with global capitalism.

The institutional and regulatory reforms introduced, the financial measures taken to overcome immediate economic pressures and the effect of working class struggles, all combined to set the conditions for capital accumulation in South Africa in the 1990's. These changing conditions for accumulation are accompanied by and parallel the changes in the social relations of production. The state's efforts to overcome crisis through financial restructuring is met at every turn by the constraints imposed by existing social relations of production. However, working class struggles in the seventies and eighties have changed the balance of class forces. The social tendencies of class fragmentation and recomposition put pressure on the state to respond to these social changes if it is to reproduce its rule and maintain stability in the production and reproduction of capital. The struggle to overcome the barriers imposed by workers' struggle on the accumulation process had immediate implications for the form of the South African state. The struggle of the state to reintegrate the domestic economy with the world economy, to overcome the crisis in the balance of payments, to limit inflationary pressure and to reduce unemployment, could not be pursued in isolation of restructuring the relations of power and domination embodied in the apartheid state.

CHAPTER NINE

Class struggle and the rule of money beyond apartheid

The purpose of this concluding chapter is to assess the policies and strategies of the post-apartheid state on money and banking and its future prospects in the light of the changing nature of global capitalist relations in the 1990's and the place of a restructured South African state within it.

The process of financial reform and restructuring after the collapse of the rand in 1985 was dominated by continued efforts to implement the regulatory framework proposed by the Final Report of the De Kock Commission. But, as I have shown earlier, South Africa after 1985 was characterised by the intensification of workers' struggles as the economic crisis deepened and living standards were threatened by high inflation and increasing unemployment. The crisis of capital accumulation and the intensification of class struggle increased the pressures on the apartheid state to take more fundamental steps to resolve the crisis. The ability of the apartheid state to safeguard the production and reproduction of capital was being subverted by the exercise of class power of an increasingly united and militant workers movement. In responding to this development, capital and the state were forced to take increasingly bolder moves. What became apparent was that the form of the apartheid state began to fragment as capital and the working class increasingly saw the apartheid state as a barrier to their own reproduction. "We cannot allow the free enterprise system to be honoured more in the breach than the observance in so vital a matter as the freedom of movement of South Africans, of whatever colour", argued Gavin Relly in an address to the Free Market Foundation.[1]

To capital, it was the political and economic strategies of the apartheid state that had brought about the crisis. The state's reform strategies were not succeeding in dealing effectively with the crisis. The slow pace of reform had only served to escalate political instability and radicalise the black

[1] Gavin Relly, *Influx control and economic growth*, supplement in Optima, 31(3) 1983 p8.

population. Political and industrial conflict were posing a threat to domestic capital and would have had adverse implications for South Africa's relationship to the world economy.

To labour, the intensification of the political and organisational power of the trade union movement (and the mass struggle as a whole) gave workers a growing confidence in their capacity to transform the apartheid state. The capacity of the apartheid state to rule in the old way deteriorated rapidly.

The pressure on the apartheid state by labour and capital was an expression of the changing dynamic of class relations. To the extent that the state is an institutional manifestation of this relation, the social pressure to restructure the state intensified. Clarke (1988:16) informs us that the specific way in which this process takes place is generally conditioned by the actual outcome of class struggles and is never completely resolved at any one time: rather, its "development is the outcome of a history of class struggle in and against the institutional forms of the capitalist mode of production, whose historical resolution is always provisional" (Clarke,1988:16). The provisional nature of the outcome of class struggles implies that the balance of class forces can condition the pace, content and implementation of the restructing process. Financial reform was an important pillar of the struggle of the apartheid state to overcome crisis. Yet financial reforms in themselves proved unable to rescue the South African economy from crisis. During the course of the period of financial restructuring from the late seventies, working class struggles in its various forms, propelled the state to take the reform process further from what was originally intended. As the political and economic crisis intensified, so the apartheid state sought new ways to reassert its rule and ensure the continuation of capital accumulation. The state responded to the fragmentation and recomposition of changing class relations by changing its form. While the consequences of this recomposition are still being determined, what has become apparent is that the calculated decision by the Botha and later the De Klerk government to dismantle the constitutional basis of the apartheid state has made possible a new political order by extending the franchise. In this way it has become possible for the political leadership of the black working class, to be incorporated into the state apparatus. The government of national unity formed after the April 1994 elections, is now directly involved in the process of finding ways to overcome the legacy of crisis through seeking accord with capital and labour.

The new ruling class in South Africa has confined the process of restructuring to within the limits set by the valorisation of capital. It is in this sense therefore that there is continuity between the `post-apartheid' state and the process of restructuring started by the apartheid state. The post- apartheid state differs from its predecessor in creating a new constitutional framework of regulation and administration that made possible the extension and deepening of capitalist social relations unshackled by the barriers imposed by the apartheid state.

This has important implications for social relations and the form of the post-apartheid state. It poses inherent limitations on the struggle to overcome crisis and the ability of the working class to secure a future free from class domination. The immediate question for the working class at present concerns the fact that the post-apartheid state is imposing the rule of capital on the state. State strategies for labour are not concerned with strategies for the socialisation of production but instead are confined within a form of the state that is inconsistent even with the social democratic strategy of `growth through redistribution.'

This democratisation of the South African state is however a two-edged sword. On the one hand, through the extension of the franchise and the development of new constitutional principles in which the capitalist state is re-constituted on a non-racial and democratic basis the right of the masses to participate in the political process has been won in principle. This is an important victory. Yet, on the other hand, its full realisation *in* *practice* is only possible with the transformation of capitalist social relations to the socialisation of production relations. Such a transformation is only possible to the extent that the social relations of production and distribution itself are transformed from their basis in the alienated form of production for value to production for social need. But the restructuring process in South Africa has not gone so far. While it is an advance for the working class to achieve access to the state, the state has been institutionally restructured in its relation with capital. The pre-reform period was characterised by the struggle by state and capital to achieve the imposition of capital within the existing state form. The form of institutional restructuring achieved after apartheid is reimposing the rule of capital on the state.

State form

The development of the class struggle in South Africa has never been confined solely within the institutional forms within which the apartheid state attempted to confine it. The same would be true of the reconstituted state. The contradictory tendencies of capital accumulation constantly create new obstacles to the efforts by workers to satisfy their aspirations, and imposes new constraints on the ability of capital and the state to respond to workers' aspirations within its institutional forms. For this reason, the development of the capitalist state form parallels the development of the class struggle, which itself "is a struggle over the form of the state, conducted in and against the differentiated institutional forms of capitalist domination."(Clarke,1988:142) The South African state after apartheid will be subject to the same conditions precisely because the institutional forms of social relations remain premised on the formal separation of the state from civil society and the reproduction of the capital relation.

The formal separation of the state from civil society, a feature of the liberal form of the state, embodies the abstract power of the state in the rule of money and the law: "The formal freedom and equality of the citizen before the law is merely the other side of the formal freedom and equality of the individual in the face of money. The state secures the reproduction of civil society by enforcing the rule of money and the law, which are at the same time its own presupposition. Thus the liberal form of the state secures the mutual subordination of civil society and the state to the anonymous rule of money and the law"
Clarke, 1988:127).

The subordination of the state and civil society to the abstract rule of money and law enables the capitalist class to assert its domination over both civil society and the state. "However the substance of state power, as the power of a particular class, contradicts its form, as expression of the general interest" (Clarke, 1988:128).

In the historical development of the capitalist state form Clarke (1988) has shown that the restructuring of the state's administrative, legal,fiscal, monetary and financial apparatuses were of greater importance to the ascendency of bourgeois class rule than the apparently revolutionary transformation in the system of political representation: "The reconstitution of the state was ultimately determined not by the political triumph of the bourgeoisie but by the transformation of the social relations of production." (Clarke,1988:131) The power of capital was embodied in the liberal form of the state and not in the access to the institutions of state power. The extension of the franchise therefore did not threaten its power. Rather, the liberalisation of the state form was a condition for political reform, the kind of political reform that would provide a means to draw the working class closer to the constitution of the capitalist state and establish the basis for its political fragmentation.

With its first constitutional act, the new state has redefined its relationship to the newly enfranchised population including the black working class. It has set in motion new forms of differentiation within the working class: workers as workers, consumers and citizens. This comes at a time also when trade union membership is showing signs of levelling off.[2] The steady erosion of working class unity that is increasingly likely in the reconstructed state, will open the way for the progressive imposition of the power of money i.e., capital in its most abstract form, on the state and the working class.

The internationalisation of capital will undermine and circumscribe the capacity of the state to intervene in the economy in pursuit of redistributive strategies (See Radice,1984 and Clarke,1988). This has important implications for the South African domestic economy in the 1990's and for the ability to develop autonomous economic strategies: "South Africa in the 1990's...is likely to find that its decision-taking elites are exposed to far greater demands than ever before from outside constituencies. They may witness as well a fragmentation of their authority....The result could be a decline in government autonomy" (Mann,1991:30). The declining authority of the state is a function of the subordination of civil society and the state to the power of capital in its abstract forms, viz money and the law. Consequently it is the contradictory tendencies of capital accumulation on a world scale that impose limits on the form of the (nation) state. The process of state restructuring on a national scale in South Africa

[2] See Ian Macun, *South African unions still growing?* SALB, 17(4) July/August 1993.

cannot be separated from the imperatives of the global power of money.

Restructuring the financial system: The RDP and the MERG report

With the establishment of a `government of national unity' under the political leadership of Nelson Mandela in 1994, the ANC is now centrally placed to play a key role in the process of restructuring the state. The ANC published a wide-ranging policy document which set out their objectives in the reconstruction and development of South Africa after apartheid. This Reconstruction and Development Programme has now become the principal policy document adopted as a framework for the new government.

Rejecting both `commandist central planning' and `unfettered free market' systems, the RDP calls for the state to play a `leading and enabling role in guiding the economy and the market toward reconstruction and development'(RDP:80).`The democratic government, the trade union movement, business associations and the relevant organisations of civil society must cooperate in formulating economic policy'(Ibid:81).

The RDP appears as a laudatory attempt at formulating a comprehensive policy framework for the reconstruction of state and civil society. It places priority on the `basic needs' of the population and the broadest participation in the planning and coordination of the programme. Its weakness is that it is written in the language of consensus. It treats the state, capital and labour equally and assumes that the programme can be implemented by appealing to this consensus; a pertinent illustration of this is the statement that "the democratic government must enter into discussions with holders of wealth in an effort to persuade them of the harmful effects their actions are having on our economy" (Ibid:112-3)! The RDP ignores or underplays real inequalities in resources, power and interests. In doing so it lays open the programme to differing interpretations arising from vested class interests.

But, more fundamentally, the programme takes further the process of capitalist restructuring that began with de Kock-Wiehahn-Riekert reforms of the early eighties and seeks to mobilise the broadest possible support within the newly enfranchised population behind such restructuring. The fact that it is the ANC taking the lead in this process has given it a legitimacy that the apartheid reforms had no hope of attaining. From the perspective of capital, the RDP legitimises,defends and extends capitalist relations of production and accumulation in SA and facilitates the fuller integration of the domestic economy to the international economy. The RDP takes further the efforts by the apartheid state to de-politicise economic relations. It extends and deepens the command of capital over labour. From the perspective of the labour movement, the RDP reflects the growing support for corporatist strategies as an alternative to large-scale nationalisation. In supporting a `social market economy', the SACTWU Congress in July 1994 expressed support for the view that, "Through our struggles we can create a system of co-determination, where capital or government is unable to act in a unilateral manner. Through co-determination we can have a joint say over economic policy at national, sectoral and company level. Decisions on macro-economic policy would need to be resolved through tri-partite institutions. Wage policies for all factories in one sector would be settled through centralised collective bargaining. The flow of investments will be influenced through industry-wide restructuring policies, negotiated with unions...In short, the ability of the owners of capital to exercise their power would be limited through requirements in law that they negotiate with trade unions."(SACTWU,1993:27-27) The role of the state, in this view, would be directed at facilitating self-regulation between capital and labour based on a system of collective bargaining rather than state-regulation (ibid:29).

What is significant about the Reconstruction and Development Programme of the ANC and the report of the Macro-Economic Research Group, is that both policy documents make a commitment to regulate the SA economy indirectly, through the financial system rather than directly, through the nationalisation of private assets. In so doing, the RDP and the MERG fundamentally continue the process of financial reform that commenced with the De Kock Commmission. As with De Kock, so with the MERG and RDP, ways are sought to regulate and restructure SA capital through its fetishised forms - although capital could not achieve this against working class opposition during the apartheid era. This is paralleled in the labour movement by the call to combine the financial resources of the trade union movement in order to influence capital: "By concentrating to build an independent financial base for workers, we can influence investment decisions over our money, rather than enriching the share-holders of private banks, building societies and insurance companies. There are major gains for labour in such a programme."(Ibid.:28)

It is clear from the above illustrations, that significant sections of the labour movement and the ANC are committed to a `partnership' with capital which leaves the central tenets of capital's strategies intact. The political strategies of labour (as represented by the SACTWU policy document) and the ANC amount fundamentally to a demobilisation of the workers' struggle by seeking to limit class struggle within the fetishised forms of capitalist social relations, viz. `collective bargaining system', tri-partite fora and the rule of money. For the workers' struggle, the RDP represents an era of class collaboration in which the aspirations of workers will be increasingly marginalised, directed and subordinated to the interests of capital. For workers, the RDP raises more questions than it provides answers. As one commentator wrote: "The RDP reads like a well-meaning wish-list. No decent person could possibly object to it. But where will the money come from? Will there be a serious attempt to reallocate resources and power away from the rich and the whites or not? What will be the mechanism and institutions to do this? What about democratic and public control of state enterprises? Any issue which might suggest a serious conflict with the interests of the rich and powerful has been smoothed over. This is a document that is as important for its silence as for what it says."(van Holt,1993:23,25)

1. The Reconstruction and Development Programme on restructuring of the financial system

The Reconstruction and Development Programme, devised by the ANC, is an attempt at an integrated policy framework for socio-economic development. Reform of the financial sector is seen as important because the legacy of apartheid has concentrated resources in "A handful of large financial institutions, all linked closely to the dominant conglomerates" (RDP:1994:110), without serving the needs of the black population. The RDP appeals to the new government to : "modify regulations and support innovative financial institutions and instruments which mobilise private domestic savings to help fund the RDP, while not reducing incentives for personal savings. The democratic government must enhance accountability, access and transparency in the financial sector. In cooperation with other stakeholders, it must review both regulations and regulatory systems to determine which aspects prove an unnecessary impediment to the RDP, and more generally to greater efficiency in the mobilisation and subsequent allocation of savings." (Ibid:110) The RDP is committed to the extension of financial services to the population hitherto marginalised by the banking system through `prudent non-descriminatory lending', `community banking', restructuring of pension and provident funds and a more accountable Reserve Bank. The RDP is seen as a programme that "has been developed with and can be implemented together with, mass organisations in civil society." "It seeks to forge a functional relationship between the state and its institutions, and various organisations that have vitalised civil society." (Alec Erwin, in SALB Vol.18(1) 1994:39,40) Harnessing these resources are necessary because, `any attempt by the state to assume full responsibility for our future would be foolhardy'. Similarly, we cannot rely solely on the market, which `is incapable of effecting major structural reform'.

Bobby Godsell, a Director of the Anglo-American Corporation welcomed the RDP programme, was enamoured by its pragmatism and its call for the participation of business in its implementation but was cautious of the targets set:"Some of the targets set do not suggest that there has been a serious examination of the achievable. Can the promise be funded? Are there constraints beyond money? Does the target make sense ?" (Ibid;46)

What is significant about the proposals on financial restructuring in the RDP is that they leave intact the monetary and financial framework set up by the De Kock reforms. What the RDP seeks to do is divert more resources towards productive investments from the financial sector and from people's savings. The crisis, however, is not about the unwillingness to invest, rather it concerns the unprofitability of investment. Consequently, diverting funds towards productive investment, will only exacerbate the crisis. This crisis is unavoidable so long as South Africa is integrated into the world economy. The RDP establishes a framework for a new phase of struggle in which the state will be subjected to capital by the financial crisis and will face growing popular resistance. This raises the question, which way will the struggle turn?

Report from the Macro-economic Research Group

The MERG report, provided the detailed policy framework for the RDP. It provided specific policy recommendations that follow from the key tenets of ANC economic policy. It raises the same general questions that arise with the RDP.

The objectives of the MERG proposals for restructuring of the financial system, are:

1. To extend banking services to the black population by creating a low-cost and easy accessible system of money transfer;
2. To increase personal savings;
3. to facilitate conditions for investment in growth sectors of the economy and in black enterprises;
4. To establish a stable source of funds for the state
5. To improve the ability of financial institutions to supervise industrial and commercial enterprises;
6. To restructure the Reserve Bank and the Johannesburg Stock Exchange.

These objectives, MERG argues, "would make the benefits of banking and finance available to the whole population, and would actively involve the financial institutions in financing the new social infrastructure and industrial development" (MERG,1993:243).
The point of departure for the MERG recommendations is that the present financial system is `unsuited to the task of transforming the South African economy'(Ibid:244).

The financial infrastructure of the apartheid state has been based on the the predominance of commercial banking for short-term finance, the Johannesburg Stock Exchange for raising long-term equity capital, the mining finance houses and the savings institutions (life assurance and pension funds). These have been the institutional pillars
of the apartheid state. The need for restructuring arose from the failure to overcome continuing crisis. The first major attempt at restructuring, as a consequence of the recommendations of the De Kock Commission, has been a long drawn out process that is yet to be completed, despite the publication of its Final Report in 1985. To MERG, the De Kock Commission shifted the focus too much away from restructuring and developing the appropriate financial institutions `towards unregulated operations on competitive financial markets' in the hope that this would facilitate the flow of funds to the productive sectors of the economy. MERG believes that this policy of financial liberalisation has been a failure:"The system has become increasingly dominated by a few large savings institutions and banks...While new markets in futures and derivatives have grown, they do not deal directly with capital for industry or the state, and the capital market itself...remains uncompetitive and non-innovative...The financial system is neither adequate for financing economic growth and restructuring, nor a successful international market with financial services companies whose international

profits contribute to the balance of payments" (Ibid:244-5). MERG identifies the following features contributing to the failure of the financial system:

1. The recommendation of the De Kock Commission to liberalise the foreign exchange market was unrealistic and could not be implemented;
2. The move towards market-related policies has not improved investment in competitive industry nor has it facilitated investment in economic and social infrastructure; and
3. The market-oriented approach has left the financial institutions largely intact allowing them to channel their resources into `soft options' in the financial and real estate markets rather than into investing in economic development. MERG opts for a restructuring programme directed at the institutions rather than the markets. A restructuring programme should develop the appropriate institutions best able to facilitate the programme.

MERG proposes the establishment of a `People Bank' similar to the giro banks in Europe and Japan. The objective being the creation of a banking institution that would be best able to extend the range of banking services to the majority of the population. The consequence of present banking services which *de facto* exclude the majority of people is that "A national mass market cannot be developed fully (as it should be, if domestically oriented manufacturing is to grow), as transactions are costly and difficult if they always involve the handling of cash"(MERG,1993:246).

The MERG proposal is for the People's Bank to be operated through the post office, an institution more familiar and accessible to black people, with an established national branch network and electronic links to facilitate low-cost banking transactions. Developing financial policies directed at increasing personal savings is a key element of the MERG proposals. "the scale of the transformation required in South Africa is such that the new strategy will aim for a large increase in private and public sector investment. If this is not to be accompanied by a substantial worsening of the current account of balance of payments, it will require an increase in domestic saving to accommodate it, and increased personal saving should have a central role in this" (Ibid:249)[3]

Another objective of institutional restructuring for MERG is to ensure the financing of productive investment. Savings on their own is not sufficient for this purpose. "Financial development requires policies to develop appropriate institutions in which the relations between finance and production are not purely market transactions" (Ibid:253). Financial policies

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[3] MERG: "The principles Keynes successfully applied to financing the huge investment required for war, apply to the huge investment that will be required in South Africa"(Ibid:249).

directing funds to productive investment can be made possible, suggests MERG, by developing the necessary institutions promoting new investments and by influencing the price and terms of finance for this purpose. Following upon this, MERG proposes 4 ways in which the Johannesburg Stock Exchange could be restructured.

1. Establishing compulsory funds able to purchase stakes in quoted companies at market prices.
2. Strengthening low-cost, entry-level sub markets such as the Development Board and the Venture Capital Board.
3. Enabling foreign companies to raise capital on the JSE.
4. Maintaining stability in the capital markets by establishing a Capital Issues Commission under the Ministry of Finance in order to consider and authorise company plans for new issues. The Commission would also channel funds into priority areas and ensure that companies raising capital do so in accordance with national policy on employment and other practices.

To increase public sector funds, MERG proposes that the long term capital fund institutions, pension funds and life assurance, be subject to prescribed asset requirements under which a proportion of their assets can be invested in public sector capital projects. This will effectively reduce the public sector borrowing requirement that has to be financed by bank credit, reduce overseas borrowing by the public sector and enable the government to raise funds through domestic bond issues at relatively low interest rates.

Commercial bank lending should move away from the British model based on short-term loans, a division between commercial and investment banking and non-participation in the management of the borrower's business in favour of the German model of corporate financing and the representation of banks on supervisory boards of companies. This would ensure long-term involvement of banks in a company's development. In order to do this and
still maintain bank profitibility, far-reaching changes are required in company law, capital requirements of banks and in taxation. In the specific circumstances in South Africa as it undergoes transition, financing public sector investment is dependent on radical overhauling of existing public authorities including that of the bantustan structures: "To enable the financial system to finance public authority investment, it is necessary to improve their revenue base and restructure their debt...It is also necessary to adopt proper standards for calculating and disclosing the contingent liabilities of the public bodies that have guaranteed the debts of other authorities" (Ibid:258).

Money and banking in the new South Africa

To MERG, forms of regulation should go together with the coordination and distribution of financial resources in order to channel excess output towards productive investment.

Since 1992, the banking system is being regulated by the Deposit-Taking Institution's Act. The Act serves to protect the bank shareholders' capital from risk, restricting bank exposure and setting minimum liquid-assets and cash ratios. MERG wants the Reserve Bank to play a greater role in protecting the deposits in banks from risk by introducing a system of deposit insurance. This, MERG argues, is important in encouraging financial flows in the desired direction by risk-weighting different types of lending.

In a situation of regulation failure, the customary central bank function of `lender of last resort' has been institutionalised to defend the monetary system. MERG recommends that in the event of a banking crisis, state policy should be rather towards the nationalisation of large commercial banks requiring lender of last resort support rather than using Reserve Bank assets to bail out such banks.

Rather than imposing ceilings on interest rates, "it is desirable to monitor the allocation of bank credit to different sectors and to impose sectoral targets for credit allocation" (Ibid:260).

A broader framework for banking regulation is necessary in an economy undergoing transformation. Regulatory functions exercised by the Reserve Bank should be placed under political control: "MERG recommends that instead of becoming increasingly independent, the Reserve Bank should be placed more firmly under political control. Its conduct of monetary policy, supervision and other functions should be made subordinate to the Minister of Finance. (This would ensure) that monetary policy is determined by and accountable to the democratic government "(Ibid:261). MERG rejects the argument for a fully independent Reserve Bank because "It prevents the Reserve Bank from being accountable to democratic institutions, or being directly controlled by them. It assumes that inflation is controllable by monetary policy, whereas during a transition period, it will have structural characteristics. It subordinates to control of inflation the Reserve Bank's responsibility of lender of last resort"(Ibid:261-2).

While the actual forms of regulation of the banking system remains under review at the time of writing, the indications are that the deregulation process will continue apace and monetarist policies will not be challenged significantly within the current administration although it may be tempered by popular demands around the RDP.

Conclusion: Corporatism, state form and the power of money

Both the RDP and the MERG study invoke the idea of a partnership between state, labour and capital in the reconstruction process. The shift in ANC policy towards corporatism has been evident in the evolution of its economic policies since the publication in 1990 of its `Discussion Document on Economic Policy'. In 1991 COSATU called for the establishment of a National Economic Forum composed of representatives of labour, capital and the state. The intention at the time was primarily to assert COSATU's agenda on the reconstruction process at a time when the apartheid state was pursuing its own reform strategies and when strains were appearing in the alliance between COSATU, ANC and the SACP. The NEF, set up in 1992, and a restructured National Manpower Commission which included representatives from the independent labour movement, placed COSATU, it was thought, in a strategic position to influence the restructuring process. Nevertheless, as the ANC sought to broaden its appeal, its economic policies became decidedly `business-friendly', flexible and pragmatic (see Natrass,1994). As capital, labour and the apartheid state each sought to assert their own strategic interests in the restructuring process, so they increasingly got locked in to a partnership which they collectively had to justify politically to their constituencies. Thus, the RDP and the MERG study both published in 1993, reflected strong tendencies within the ANC towards corporatist strategies.[4] While the RDP has more popular concerns: "it has been developed with and can be implemented together with, mass organisations in civil society" (Erwin,1994:39); it nevertheless "seeks to forge a functional relationship between the state and its institutions, and various organisations that have vitalised civil society." (ibid:40)

In an analysis of the process of transition in SA, Laurence Harris (Harris,1993:95) comes to the conclusion that "the reality of economic and social reform in South Africa consists of a progress measured by increased tri-partism - forums for discussion or negotiation between the state, business, and trade unions (or civic associations) - but it is a collaboration that involves no challenge to the agenda of business." "Since the agendas to be pursued in tripartite bodies are, therefore, no different from a rational capitalist agenda, the structural reform idea that the greater voice of trade unions at the negotiating table represents a dynamic of progress, leading from popular democratic victories to gains which are more socialist, has no basis in reality."(Ibid:96) In the long term, this strategy can only strengthen those tendencies which serve to disarm the power of labour by strengthening the

[4] "We are not yet a corporatist society, but we are en route to becoming one", argues Jeremy Baskin in *The trend towards bargained corporatism* , SALB 17(3) May/June 1993, p65

institutional forms binding labour to the wage relation, the industrial relations system and the capitalist state form. The emergence of corporatist political institutions within the liberalised state form is not a sign of emerging socialism as some left-commentators suggest. There remains a fundamental contradiction between the acceptance of the liberal state on the one hand and the creation of `corporatist' political institutions. Confined within the limits of the liberal state form, its significance is primarily ideological, serving to disempower labour by seeking to confine workers struggles within the institutional limits of the liberal state form.

Wider significance of the Reconstruction and Development Programme

The RDP is more than simply a policy framework for the coordination of development strategies in the new South Africa. An analysis of the RDP and the ways its goals are being implemented reveals more than what is presented, of the real nature of the transition process in South Africa.

1. Labour-State relations

The RDP was initiated by COSATU as a way in which the ANC, and through it the government of national unity, could be locked into a pact with labour in order to safeguard workers' interests in the new government. For this purpose, COSATU would continue its alliance with the ANC and support its electoral campaigns: "The RDP is the brainchild of COSATU. Initially it was conceived of as a pact that would be signed between the ANC and COSATU with the objective of binding the ANC to specific agreements while the federation would undertake to deliver votes for the ANC" (Buhlungu,1994:8). Continued discussions, however, conceptualised the RDP as a unifying programme for a broader political purpose. In the end, the RDP became the ANC's election manifesto, and the programme was specifically designed to broaden the appeal of the ANC beyond its alliance with COSATU and the Communist Party. In the period immediately before the elections, the ANC was concerned to impress upon domestic and international capital that it is a party that is friendly to business. Mindful of the financial costs of reconstruction and the heightened expectations among the newly enfranchised population of what the ANC should deliver upon taking power, the ANC was careful not to alienate potential international investors. The RDP therefore had incorporated within it sufficient elements to make sure the ANC is cast in this light. Not all was simply presentation, however, for the ANC had indeed moved closer to capital in its economic strategies - and it was moving COSATU along as well. The evolution of the ANC's economic and political policies from its Discussion Document on Economic Policy published in 1990 to the RDP of 1994, has indicated a steady but significant shift to the right.

A similar process was happening in COSATU. Whilst calls for nationalisation and socialism are still heard, they are now somewhat muted. In tandem with that of the ANC, COSATU's policy positions started shifting away from confrontation with the apartheid state to one in which negotiation was seen as the only viable option for reaching a political settlement. Instead of `insurrectionary' politics, the politics of `reconstruction' gained greater currency. COSATU and its affilliates started studying the industries in which they have a presence and developing an overall industrial policy with the objective of reducing unemployment, increasing productivity, investment and trade performance (See Industrial Strategy Project, 1994).

Thus it was that at the moment when the time came for labour (in this case COSATU) to protect its future interests by making a pact with the government-in-waiting (the ANC), the independent voice of labour was somewhat blunted by the policy shifts it had already made. Consequently, instead of a clearly defined agreement in which the ANC commits itself to defending worker's interests in the new government, we have instead, a manifesto that presupposes a strategic consensus between capital and labour.

To COSATU, the RDP is evident of its influence on the transition process. It sees the RDP as a means to achieve the commitment of the Government of National Unity for its own objectives, of extending workers rights and gaining access to state resources (See Collins,1994).

It is clear however that the RDP as it stands now is far removed from its original intention. While it will undoubtedly bring material benefits to many who suffered under apartheid, the strategic implication of the RDP is that it will facilitate the imposition of the power of capital on the emerging state through what is being presented as a programme for social development. It is not the basis for a transition to socialism as some on the left suggest, rather, it clears the way for capitalist restructuring of the South African state by promoting consensual solutions among capital, labour and the GNU through the creation, for example, of tri-partite institutions such as the National Economic Development and Labour Council. In this way labour is locked into a strategic planning process which it is not likely to direct in its own interest. The reason for this is that the left vision of a post-apartheid state developing creative and innovative alternatives to both soviet-style commandism and the uncontrolled free-market is rapidly fading as the emergent state succumbs to the global power of capital and organises its own institutions along lines of capitalist rationality. Through the RDP, the state will attempt to confine the independent self-organisation of workers and other social groups in civil society within the limits of capital. Financing of the RDP is being linked in the White Paper with the sale of state assets. Funding for NGO's is conditional on support for the RDP.

What is becoming clear therefore is that *contra* its original intention, the RDP is becoming the means by which the state is attempting to control labour and other popular organs of civil society.

2. Labour-Capital relations

The recent spate of strikes across the country came at an inopportune time for the GNU and the ANC leadership. It appeared to show that the new government is not able to maintain industrial stability, a pre-condition for the return of foreign investors. On the other hand, it apeared to signal to workers that despite the momentous political changes, as far as workers were concerned, it was `struggle as usual'.

An analysis of the strike wave that hit the country immediately after the elections showed a renewed confidence of workers in the wake of the political changes to take action against what they consider to be bad labour practices. The strikes were primarily concerning conditions at the workplace over pay, working practices, redundancies, union recognition, racist practices and disputes around dismissals. One commentator suggested that "workers are demanding that the changes that are happening on the political sphere must extend to the workplace." (Mtshelwane,1994:10) But the nature of the causes that sparked particular workplace disputes also reveal the uneveness of workplace conditions and the capacity of labour to transform those conditions, more than two decades since the Natal strikes! It reveals the extent of the legacy of the *ancien regime* that labour still needs to overcome as it enters a new political period. What is of greater significance, however, is not the timing of the strike-wave nor the extent to which it may have embarrased the ANC leadership, but the fact that the disputes were essentially of a *trade union* nature, and expected by the strikers to be capable of resolution within the existing industrial relations machinery, despite the highly charged political moment in which the strikes were occuring.

The strikes showed the capacity for independent action on the part of the working class. It is this capacity that makes any possible consensus between labour, capital and the state always of a provisional nature. While the struggle to depoliticise economic relations has been given new momentum with the establishment of the GNU, labour still has the capacity to impose limits on this process. But the lack of critical focus by labour of the strategic restructuring taking place at the level of the state and in the relationship between capital and the state, will have important long-term implications for labour and its capacity to engage with the power of capital.

3. Capital-state relations

The form of the South African state is a function of changing class relations. While the death of apartheid and the establishment of the GNU opens up new possibilities in class relations, the form of the emergent state is a consequence of the changing dynamic of class relations that had its roots in the crisis of domestic capital in the 1970's and the pressure to restructure the apartheid state in the 1980's.

To what extent are capital-state relations embodied in the RDP? I have tried to show in this thesis that the pressure to restructure the South African state, and the form it assumes at a particular historical moment, is a function of the changes in the social relations of production which fundamentally are a manifestation of the dynamic of class struggle. State strategies for reconstruction and development are caught between on the one hand, the need to respond to working class demands for real improvements in their lives, and on the other hand, the pressure to impose the abstract power of money and the law on society, for this is the basis of the fetishised form of rule in capitalist society. This contradiction is encapsulated by the Reconstruction and Development Programme. But the power of capital is manifested also in the way in which the forms of administration and law conform to and reproduce the abstract power of capital. Notwithstanding the rhetoric that the RDP is `people-driven', it reproduces the fetishised forms of bourgeois class rule in the liberal form of the state. It is the liberal form of the state, with its formal separation of the state from civil society, that makes possible the rule of money and the law over civil society and the state. As long as this formal separation continues to be reproduced in the South African state, the commitment towards `tri-partism', `corporatism' or `people-driven programmes' remain rhetorical devices to conceal more than it reveal of the power of money beyond apartheid.

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