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# UNEVEN GLOBAL DEVELOPMENT
## Origins and current developments

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# Capitalism of a special type? South African capitalism before and after 1994

## 1. Introduction

Is there anything about South African capitalism now or in the past that is distinct or special? How has the structure and character of South African capitalism evolved over the 'long' 20th century? What are the continuities and disjunctures running through the forms of South African capitalism operative before and after democratic change? Indeed, can one even talk about a model of South Africa capitalism at all? Are the rhythms of South Africa's capitalist development determined by capitalist accumulation on a global scale? Or does this exist alongside a set of institutions and a history that are national in character?

The study from which this paper is derived is rooted in "comparative political economy", an approach requiring scholars to "conceptualise the more abstract universal characteristics of capitalism as a specific historical form of organizing societies" and to "investigate singular – or comparative – cases of class relations and social formations in their many concrete patterns of determination" (Coates 2005: 67). My approach stresses a non-reductionist use of power and class, and the importance of changing global locations, as well as of history and institutions.

I will look at the origins and evolution of capitalism in South Africa; its hybrid financial system; the basis of corporate power built around the mineral-energy complex; the changing role of conglomerates within and outside the country; the emergence of an empowered, black capitalist elite; changes in corporate governance; the labour and industrial relations system, including the National Economic Development and Labour Council (NEDLAC). Throughout, I will try to make sense of the relationship between the democratic state and various fractions of capital, old, new, black and reconstituted.

This paper will not address issues of policy; its focus is rather on systemic and institutional issues and on changes in social relations in the construction of South African capitalism, with a special focus on the last 15 to 20 years.

## 2. Varieties of capitalism

Since the late 1990s a vigorous debate has emerged about the different varieties of capital. It may be argued that this debate has precedents in the work of Polanyi (1944) and Shonfield (1965), and follows three major theoretical currents: Marxist, institutionalist, and structuralist.

Firstly, Greg Albo, the leading Marxist contributor to this debate, argues that capitalism develops and changes "within a world that is already differentiated into many complex social formations" (Albo 2005: 74). For him, "economic imperatives always spread and universalize certain features of development across world markets, but these features are never emulated or settle in exactly the same way in the differentiated spaces of capitalist social relations" (Albo 2005: 75). One national mode may be distinguished from another by various features:

- The labour process and relations of production associated with new technologies not only allow for greater extraction of value from each worker, but also expand managerial control over the workplace, and create new stratifications within the international division of labour.
- A spatial dispersion of production processes from traditional manufacturing regions into new sites, with a reverse concentration of financial and retail services into core 'city-regions'.
- An explosion in financial activities, encouraged by policies of deregulation, including new alliances between fractions of capital and the state, and the formation of new power blocs within each nation state.
- Integration into world markets through an intensified circulation of capital in all its forms: "the internationalization of capital internalizes foreign capital as part of the power bloc of national states, while domestic capital seeks to internationalize and no longer acts like a 'national bour-

geoisie' to protect the national economic space for itself" (Albo 2005: 76).

- A realignment of state policies and institutions to advance economic internationalisation at the expense of welfare and labour. Regulatory economic agencies, like central banks, have been granted increased autonomy, further insulating them from democratic oversight.
- The emergence of new hierarchies within the world system, with the US attempting to reassert its supremacy in relation to Japan, Europe and, after them, China and India.

"Specific histories, places and class conflicts need to be explored as concrete cases of the modalities, social relations and class struggles of the 'new capitalism'" (Albo 2005: 82). Henry Bernstein asks: "What are the prospects and opportunities of capitalist development in different regions, and for different classes, in the South? [...] [the] research agenda for Marxists concerned with development is to investigate, understand and grasp what is 'changing before our very eyes' in the world of contemporary capitalism" (Bernstein 2005: 127f).

A second strand or variety is that of the 'institutionalist approach' which includes the highly influential work by David Soskice, who develops a binary classification of coordinated market economies (CMEs) and liberal market economies (LMEs) based on differences in production and market institutions (Hall/Soskice 2004). CMEs have the following features:

- In industrial relations employee organizations play a key role in national, industry wide, wage determination, and within firms employee-elected bodies play an important, often statutorily based, role in decision making, through, for example supervisory boards.
- In education and training, firms and unions promote vocational training, and higher education provides a steady supply of scientists and engineers.
- Banks finance and monitor companies, including small firms, in some countries such as Japan, through full representation on company boards.
- Inter-company relations are characterized by consensus and co-operation, with few hostile takeovers.
- Corporate governance is broad-based (often with dual boards and veto rights for unions on the supervisory board) – limiting shareholder wealth maximization and managerial prerogative and discretion.

In LMEs the situation is as follows: wage bargaining is company based and employees have few rights to workplace decision-making or board representation; there is little emphasis on vocational training; company financing is secured through stock market issues; strong anti-collusion competition law discourages inter-company coordination, and hostile takeovers are more common; corporate governance aims to maximize shareholder value, and boards have a majority of non-executive directors.

There is, third and finally, a structuralist approach based on a comparison of three national models of capitalism: Anglo-American; Continental European; and East Asian. The Anglo-American model (similar to that of the LMEs above) includes flexible labour markets; close integration into global markets; privatisation; the absence of industrial policy; limits to welfare provision; a focus on growth; equity markets as a source of capital; and shareholder wealth dominated by corporate decision-making. This category includes the US, UK, Canada, Ireland, Australia and New Zealand.

The European or Continental approach (like the CMEs) stresses national innovation; high levels of social cohesion and consensus at national, industry and firm levels; and greater reliance on banks for finance. This category includes Germany, Austria, Switzerland and the Benelux nations.

The Development State model, exemplified by Japan, Korea and Taiwan, is characterized by strong state intervention in industrial policy; extensive cooperation between firms and suppliers; and paternalist employment practices, such as life-long employment and pay based on seniority, though with limited trade union and employee rights.

Many authors point to continuities in the face of globalisation, the post-1990 crises in employment and growth, and subsequent reforms. Thus, for all the 'Anglo-Saxon' influences from the EU regulatory framework or US institutional investors, the French model is still strongly *etatiste* (Clift 2004: 109). Germany and other Rhineland countries, according to Perraton and Clift (2004: 257), are not inevitably converging toward an Anglo-Saxon model. In Germany and Japan also, Anglo-Saxon influences, especially in terms of the labour market, corporate governance and the pursuit of shareholder values in company decision-making, should not be underestimated. What matters is the "dynamics of change in national capitalism" whatever the originating source or influence (Perraton/Clift 2004: 258).

### 3. How does South Africa fit in here?

What relevance has any of this to South Africa after apartheid? Perhaps the stakes are not as high as they appeared to be in the 1970s and 1980s. Recall Magdoff and Sweezy's Monthly Review editorial of 1986: "the stabilization of capitalist relations in South Africa, even in a somewhat altered form, would be a stunning defeat for the world revolution". Capitalist relations have indeed stabilised in post-apartheid South Africa, but in how altered a form? I will draw eclectically on the three approaches cited above when looking at areas such as the South African financial system, the internationalisation of capital, and new alliances between fractions of capital and the state's role. I would begin however, by making the point that post-apartheid academic literature has paid little or no attention to capital, capitalism and what capital is doing, a point also made by Fine (2008).

Of those who have reflected on these issues, some have argued that there is indeed something different about capitalism, and about business relations and ethics in post-apartheid South Africa. It is in this view more community-based, collective, compassionate: humane capitalism, a 'gentler' capitalism, stakeholder capitalism, *ubuntu* capitalism, *shosholoza* capitalism.

The current ANC, black majority government of South Africa has of course been keen to refute any charge that 14 years after the first democratic elections the path of capital accumulation remains the same as what was set in place after the gold discoveries in the mid-1880s. This touches the core of its analysis of apartheid as constituting 'colonialism of a special type' (CST) requiring a two stage theory of revolution. The first stage, enshrined in the Freedom Charter of 1955, was to establish the economic, social and legislative foundations from which the drive to socialism (stage 2) would unfold. Suttner and Cronin (1986) argued that the charter was essentially 'anti-capitalist'. The South African Communist Party (SACP), which has historically been an integral part of the ANC revolutionary alliance, understood the Charter as ushering in a national democracy, located chronologically between capitalism and socialism, and its path of development would be 'non-capitalist'(or 'putatively protosocialist').

Ashwin Desai has pointed out that the current government claims as indicative of a different accumulation path "the full protection of trade union rights, health and safety regulations, minimum wages, employment equity and basic conditions of employment, the abolition of migrant labour, the NEDLAC process, and the system of taxation." However, these claims have not, he argues, been backed up by effective policy. To take just one of these, migrant labour: "Property relations, job opportunities, and industrial strategy all conspire to have the migrant worker still very much among us, not housed in barracks or bantustans, but in the squalid *mjondolos* (shack settlements) on the outskirts of our cities" (Desai 2006).

Leonard Gentle characterises contemporary South Africa as 'neo-apartheid', arguing that black economic empowerment is "based on the same regime of accumulation as that espoused by the white capitalist class – cheap labour power", now secured on "neo-liberal prescriptions of labour flexibility, externalisation of labour contracts, informalisation and increased labour segmentation" (2006: 132).

Bill Freund (2005: 16) has argued that the African National Congress (the black-led political party formed in 1912 and which is now in power) has to some extent nurtured a new capitalist class that will have an embedded relationship to development in the country, and is directing resources to large scale infrastructural projects such as the Gautrain (high-speed rail network) and the 2010 soccer world cup stadia, roads etc. However, it would also appear that "the picture is very much murkier when one questions the capacity of this class to take South Africa forward to a more successful set of niches in the globalised world. Even more serious is the failure thus far to transform the lives of the masses through the set of deep institutional and social interventions that can be associated with the most successful Asian developmental states." (Freund 2005: 16)

## 4. The origins and development of South African capitalism

South Africa has been at the centre of world historical trends for a century and a half, initially through trade in agricultural products, but since around 1885 because of its diamonds and gold and the significance of these products in the global trade and financial systems. When the world market was opening up under the stimulus of imperialism (1860–1914), South Africa contributed the gold which underpinned its monetary mechanism and pioneered a distinct form of racial (or as some would prefer, racist) exclusion in the Union of 1910. When the world turned inwards to state capitalism between the wars (1914–1945), so too did South Africa. In 1948, the Afrikaners achieved their own version of an anti-colonial revolution. The subsequent economic boom, rising to remarkable growth rates in the 1960s, and based in part on a successful strategy of import-substitution-industrialisation (ISI) of the Latin American type, was accompanied by escalating repression. However, from 1973, and not just coincidentally in line with changes at a global level, the South African economy went into a decline which was exacerbated by increasing global isolation and internal resistance. The crisis came to a head in the late 1980s with the result that we all know, a government which has been dominated by the ANC since 1994 (Hart/Padayachee 2000).

A critical component in the making of modern South Africa has been the relationship between the giant mining houses, the state and imperialism. Writing in 1900, the liberal British historian John A. Hobson described the adventurous spirit and business acumen of the men who headed these companies as follows, and in so doing gives us a glimpse of the character of that early phase of South African capitalism, and he hints that this model differed from other varieties operative in the world at the time: "Never have I been so struck with the intellect and the audacious enterprise and foresight of great business men as here. Nor are these qualities confined to the Beits and Barnatos and other great capitalists; the town bristles and throbs with industrial and commercial energy. The utter dependence upon financial 'booms' and 'slumps' [and the political situation] […] has bred by selection and by education a type of man and of society which is as different from that of Manchester as the latter is from the life of Hankow or Buenos Ayres" (Hobson 1900: 13).

The modern state and economy was shaped within what JA Hobson called the age of imperialism. For Hobson "imperialism was due to the rise of what we now call oligopolies […] and the tendency for these […] large enterprises to influence their governments to secure particular advantages, which were best secured through colonial-type relations" (Jomo 2002: 1).

A handful of conglomerates, the mining finance houses, which were established in the decades around the turn of that century, shaped the level, rate and rhythms of South African economic activity – and the way in which this impacted upon the country's global economic relations for most of the

20th century. As Ann Seidman and Neva Seidman-Makgetla note: "a century after the gold rush of the late 1880s, South Africa's mining industry was openly controlled by seven major groups of finance houses" (1980: 94).

Three of these were Consolidated Goldfields of South Africa (GFSA), founded by Cecil John Rhodes in 1887; Central Rand Mines, founded by another two of the diamond magnates, Alfred Beit and Julius Wernher in 1893; and Johannesburg Consolidated Investments (JCI), which Barney Barnato and the Joel family established in 1889. Beit, Wernher and Cecil Rhodes were life governors of the diamond mining giant, De Beers Consolidated Company. German banks, including *Deutsche Bank* and the *Berliner Handesgesellschaft*, controlled two companies founded in the days when Namibia (then South West Africa) fell under German control. These included Union Corporation, established as Goerz and Co in 1897, and General Mining and Finance Corporation (see Kaplan 1977: Appendix to Chapter 7).

Of the seven, the Anglo-American Corporation (AAC) founded as late as 1917 by Ernest Oppenheimer, with support from the US bank, Morgan Guaranty, the US firm, Newmont Mining, and the National Bank (a former Boer Republic central bank which was confiscated by the British after the Anglo-Boer Wars of 1899–1902 and was later to be swallowed up by Barclays Bank DCO), was "destined to grow into the largest of them all" (Seidman/Seidman-Makgetla 1980: 94f). This remained true until the early years of the 21st century.

The huge profits of the diamond mining companies meant that after an initial injection of foreign capital – estimated in 1938 to be less than 20 million pounds in total compared to the total value of diamonds mined of some 320 million pounds (First et al. 1973: 111) – most capital needs for that industry were thereafter met from internal company sources. Although some of these diamond profits found their way into the expansion of gold mining, technical and geological problems, coupled with the fixed price of gold, necessitated a new ownership structure and new foreign investment. As a result, syndicates and new corporations (including Rand Mines Ltd, Rand Deep Level Ltd and the Rand Consolidated Deep Levels Ltd; de Kewiet 1946: 248), began to emerge, precipitating massive new foreign investment. According to Frankel, between 1887 and 1932, the gold mines absorbed 200 million pounds of capital, of which 120 million came from abroad, and most of this took place before 1913. Britain alone had just 34 million pounds invested in South Africa in 1884 and this jumped to 351 million pounds by 1911 (First et al. 1973: 116).

However, the time lag between these major investments in deep-level mining and reaping the dividends of such investment was lengthy and required certain and stable economic and political conditions, which the mine-owners felt the Boer government in the Transvaal did not guarantee.

At about this time, with the support of the banks, the more powerful and globally-connected mining companies led by Rhodes and Barnato gradually began to swallow up smaller mining companies and an intense period of both concentration and centralisation followed. The weakness of the agricultural elite, and the absence of attractive industrial opportunities, facilitated these centralising tendencies in mining. This development was mirrored in finance, as the larger imperial banks, Standard and Barclays, all but put the smaller banks out of business within a few years of Union (that is, after 1910).

This British imperial dominance in finance was to weaken by the end of the First World War. Pressures on the Gold Standard, the growth of New York as a rival to London as a financial centre, inflationary pressures in the UK, and the devaluation of the pound, were among the factors that forced the imperial banks and London-based mining companies to focus on their own concerns. As a result, the South African branches of these companies secured more space to consider investments in South Africa that were less driven by metropolitan concerns and priorities. Two developments related to this new focus of South African branches of London finance houses and banks on the local economy are of note in the context of this paper. Firstly, National Bank (which was shortly to become part of the Barclays Bank stable) helped to establish the state-owned National Industrial Corporation in 1919 to support the growth of a local manufacturing capacity. Secondly, as evidence of New York's growing interest in South African mining, the JP Morgan financial empire assisted in financing the founding of Ernest Oppenheimer's Anglo-American Corporation, the activities and fortunes of which were to shape the development of the entire sub-continent (Bond 2001: 256-261).

Afrikaner hostility towards foreign capital penetration, an early indicator of local discontent with imperialism, has a long history. American mining engineer, John Hays Hammond, who along with other Californians were managing "half the mines on the Rand" (Brechin 1999: 54), and who shared Rhodes' dream of a worldwide Anglo-Saxon supremacy, played a "starring role in events leading up to the Boer war, running guns and providing other useful services for the mines' owners" (Brechin 1999: 55), and barely escaped capture and imprisonment by the Boers. General Jan Smuts had "reservations about the Americans moving in for a fat profit" (Pallister et al. 1988: 54). Oppenheimer had to re-assure Smuts about his commitment to South Africa by stating his intention to register the company in South Africa rather than London. As Duncan Innes has suggested, the decision to register in South Africa rather than in London, may have had more to do with the more favourable South African taxation rate, compared to the English Companies Tax at the time, than as evidence of some kind of economic nationalism or patriotism (1984: 109).

Oppenheimer's new company Anglo-American Corporation (AAC) was eventually formed in September 1917, and had on its board such heavyweights as William Thompson, the founder of the giant US mining company, Newmont; and Hamilton Sabin of Guaranty Trust, who represented the interests of JP Morgan. Significantly from a political perspective, the board also included, and with General Smut's blessing, a member of Parliament and National Bank of South Africa representative, Hugh Crawford (Pallister et al. 1988: 54). Ernest Oppenheimer himself won the election in the town of Kimberley for Smut's South African Party in 1921, and played an important insider role in support of his diamond interests.

Afrikaner nationalist concerns about AAC and its disproportionate influence over South Africa's economy (and politics) did not diminish over the following decades. By the late 1930s, Oppenheimer realised his dream of taking complete control of de Beers and the London-based diamond syndicate, and AAC significantly extended its operations in mining, finance and industry across the whole of Southern Africa. Oppenheimer skilfully managed his Corporation through many political minefields, even through the depression years when threatened production cut-backs in diamonds and gold were fiercely resisted by the Nationalist Government of Hertzog, because of the unemployment that would result among its Afrikaner mine-working supporters. Oppenheimer was able to ignore or circumvent these tensions, relying on the strength of English capital, especially in gold-mining, which was the single most important source of government revenues, and his direct and "considerable influence at the political centre" (Pallister et al. 1988: 60).

Despite some suspicion and antagonism between a more internationalist 'English' or imperial capital, led by AAC, and Afrikaner 'nationalist' interests, these economic and political differences did narrow in the inter-war years and even in the early apartheid years. Part of the reason for this was that companies like AAC sold off parts of these interests to emergent Afrikaner groups (eg Gencor), and also because, despite their residual suspicion of AAC and English capital, the National Party apartheid government realised the importance of English capital for economic success. The National Party government, for example, worked closely with AAC in the further development of electricity provision, both in South and southern Africa, and in the diversification of the local capital market, a point developed below.

The period 1930–1960 was a remarkable period in the history of the mining industry, which extended into and restructured both manufacturing industry and finance. The most significant event was the discovery of new gold fields in the Orange Free State province in the 1940s. AAC was in the forefront of these developments. As Innes remarks, "Anglo's take over of groups like SA Townships and Lewis and Marks was an important manifestation of the growing tendency towards increasing centralization of capital and control in the industry" (Innes 1984: 137).

In the late 1940s and 1950s the AAC, with state support, became active in developing the local money market in South Africa, through the creation, for example, of the National Finance Corporation (1949), which was designed to smooth the flow of mining funds into industry. In 1955 AAC set up its own private merchant bank, Union Acceptances Ltd (UAL), and further developed and diversified its industrial interests.

Despite the involvement of international finance, technology, and skilled human labour in the early years, the large mining-finance conglomerates grew to become increasingly South African. Their contribution to output, employment, exports and state revenue was crucial to the modernisation and growth of the national economy. By the 1920s, a growing secondary industry largely revolving around the mining industry developed, at the same time as some major new state corporations were set up;

by the 1950s, Afrikaner capital inserted itself into this milieu; in an era of growing isolation in the 1970s and 1980s, large scale investments by the state, parastatals and private corporations in strategic economic activities in energy and heavy industry took place; throughout this long period, a growing centralisation and concentration of capital occurred, combining with earlier developments to give South African capital a very distinctive character, what Fine and Rustomjee (1996) have referred to as the Mineral Energy Complex (MEC).

The contribution of the mining and energy sector to the economy has declined since the early 1990s and the big houses have unbundled and restructured in significant ways, but their power and influence endures. Fine and Rustomjee (1996) refer to the centrality of the Mineral-Energy Complex (MEC). In a 2007 conference paper, Fine characterises the MEC as follows: "[…] the MEC is to be understood as a system of accumulation specific to South Africa and its history. At the simplest level, it comprises a core set of activities organised in and around energy and mining. Contrary to majority opinion, these core sectors continue to carry a, if not the, major determining role in the economy. Further, they have been attached institutionally to a highly concentrated structure of corporate capital, state-owned enterprises and other organisations such as the IDC [Industrial Development Corporation] which have themselves reflected the underlying structure and balance of economic and political power […]. The current structure and dynamic of the MEC has changed again. For it is [now] heavily dependent upon the globalising strategies of South African conglomerates" (Fine 2007: 11).

Fine (2008: n.pag.), has argued that "there are indications of a resumption of a state-led strategy around core MEC sectors to provide secure domestically-based surplus for on-going internationalised financialisation, but with continuing disregard for broader economic and social development other than as a fortunate spin-off or unfortunate constraint. In short, there is the prospect of a renewal of the state-led expansion of the 1970s, with financialisation and BEE (Black Economic Empowerment) as two new features."

Evidence for this is to be found in many parts of this paper. At a general level it appears that the momentum of economic activity around the MEC appears to have carried through the transition almost seamlessly. Early in the life of the new government, the cabinet enthusiastically approved mega-projects such as Alusaf (Aluminium smelting) and Columbus (stainless steel). Both projects received substantial financial support from the Industrial Development Corporation (IDC). In fact, an examination of IDC investments since, say 1990, clearly demonstrates the dominance of mega-projects, despite the nominal commitment to small business development (Fine 1997: 136-140).

Thus, speaking in Parliament recently, Public Enterprises Minister Alec Erwin outlined his vision of a multiplication in the number of state-owned enterprises: "which would drive a strategic plan to re-industrialise parts of the economy [...] Erwin was unrepentant yesterday, arguing that the new enterprises would be 'the vanguard of the developmental state'. [...] Erwin vehemently rejected as 'gloomy and depressing' suggestions made at a media briefing that his plan would see the tentacles of the state extended octopus-like into every corner of the economy, squeezing out the private sector. He argued that the involvement of state-owned enterprises in big investment projects underpinned by a long-term, state-devised growth plan would be a catalyst for private sector engagement" (Business Day, 15.5.2008).

This pre-occupation with mega-projects also extends to regional and local government. The KwaZulu-Natal (KZN) government's massive investment, through its own development finance corporation (Ithala) in the Dube Trade Port, is a case in point. My argument is not that these projects are not worthwhile or successful, but is rather to demonstrate that substantive continuity with the past exists in a key component of the make-up of the political economy of contemporary South African capitalism.

Zav Rustomjee has recalculated the growth of the MEC and non-MEC manufacturing sectors in relation to real (2000) GDP over the period 1970–2004. Although both have grown in a relatively robust economy, "non-MEC manufacturing is still well below the MEC contribution in absolute and relative terms. Despite the erosion of group holding structures the MEC sectors are still the locomotive. Group holding power may have morphed into a slightly more diffuse form – but the same business characters and groups (with a few additional domestic and global players) continue to determine the course" (Rustomjee, personal communication, January 2007).

## 5. The changing face of finance and corporate power in South Africa

South Africa's financial system has its roots in the British market-based tradition. Commercial banks with an extensive branch network tend to focus on short-term finance, while the stock exchange raises long-term equity finance.

South Africa's private banking and financial system, shaped by the needs of the gold-mining industry around 1900, has failed to channel funds into the two essential areas: investment in competitive industries (small manufacturing, engineering and IT, including new black businesses) and in social and economic infrastructure. Rather, its relative insulation has fostered the servicing of the conglomerates and soft options in the financial and real estate markets. I have no evidence to suggest that this situation has changed in any significant way; even development finance institutions such as Ithala, which I know well, lend on virtually identical terms (cost, maturity structure) as private banks.

The advent of democracy, an opening out to global competition and the scale of vision and ambition of key figures have, however, led to a strategic restructuring of some corporations, with implications for financing options: "A decade ago, the six mining finance houses – corporate structures peculiar to South Africa, though reminiscent of the Japanese pre-war Zaibatsu, and formed under similar circumstances – dominated the economy. Today, the mining finance house no longer exists. Along with its demise, two of its widely imitated characteristics – diversified holdings and the entrenchment of control through pyramid structures – have fallen from favour" (Malherbe/Segal 2001: 1).

The main reason for this, they argue, has been market discipline imposed through falling equity prices and the role played by foreign institutional investors, who robustly criticized corporate structure, governance and performance upon their return to South African markets in 1994 (Malherbe/Segal 2001: 4).

However, South African conglomerates, especially in the resource sector, partly under Black Economic Empowerment (BEE) imperatives, partly to stave off the perceived threat of rising foreign competition, have unbundled, then rebundled within more focused areas of economic activity, and have come to dominate their sectors globally. Anglo (mining), BHP Billiton (mining), SAB Miller (beer) and Standard Bank Liberty (finance) are prime examples.

There is little or no empirical work on the sources of new finance used by corporations to fund capital expenditure. My own research of a few years ago, which focused on medium and large establishments in Durban, suggested that the big South African banks, unlike their European, Japanese or Korean counter-parts do not have an appetite for anything other than short-term lending. More and more companies, including medium sized firms, either have to raise funds from retained earnings or are listed on the main or development board of the Johannesburg Securities Exchange (JSE).

## 6. Conglomerates in the transition to democracy

The *Varieties of Capitalism* literature stresses the importance of understanding the nature of a country's global integration, its trade and capital flows and their volatility and sequencing in relation to growth. This can suggest the extent to which global capital, especially through transnational corporations, shapes national capital and in whose interest it does so. Do these corporations receive preferential treatment with regard to tax, pricing policy, the environment, labour standards, and empowerment? Here we should examine the global strategies of South Africa's conglomerates as well as changes in the role of foreign capital in South Africa.

South African corporate giants such as Anglo American Corporation, Goldfields, and De Beers operated in the international arena long before the apartheid era and continued to do so afterwards. Without fanfare, some of them – together with state corporations, including railways and electricity supply – operated in other parts of Africa during this period. However, they had to restructure and reposition domestically and globally, after apartheid ended and a highly competitive global economy loomed, and after they had become somewhat frustrated in further globalising their operations after the debt crisis of the mid-1980s. Yet, the advent of democracy was to prove a windfall for many. Ben Fine, in fact has argued that macroeconomic policy after 1994 has been managed "in large measure [...] to allow for [...] capital flight on favourable conditions to the conglomerates" (Fine 2008: n.pag.).

These conglomerates moved aggressively into the rest of the continent. South African companies are now prominent in Mozambique, Namibia, Lesotho, Swaziland, Botswana, Uganda, Kenya, Tanzania, and even in Nigeria and Ghana, especially in retail, communications, hotels, breweries, and finance. This has been met with some local resistance.

More significant has been the listing offshore of some major corporations since the late 1990s, mostly on the London and New York Stock Exchange, including Billiton I (now Melbourne-listed), South African Breweries, Anglo American, Dimension Data and SA Mutual. Their market capitalisation amounted to 22 billion pounds sterling, with the impact felt sharply by the JSE.

Their reasons for doing so included the improved prospects for raising capital, particularly from 'index funds' that track the hundred most capitalised companies of the London Stock Exchange (FTSE 100) by investing in all its components; freedom from South Africa's remaining exchange controls hindering foreign investment; and the poor growth rate of the South African economy (ABSA 1999: 6). Most claimed that an overseas listing would allow them to raise funds cheaply, thereby allowing them to expand their investments at home.

The benefits to the companies and to South Africa are debatable. Apart from Billiton and Anglo-American, companies listed abroad have failed to make much headway in global markets and still derive most of their revenues from South African activities. Even so, both Billiton and Anglo now focus their exploration efforts and new investments on base minerals in Russia, Peru, Brazil, Australia, Canada and China, and elsewhere in Africa, such as Mozambique.

The negative impact on the Rand of large financial outflows, including dividends, and branch profits, may be considerable. I have calculated that net dividend outflows have increased dramatically since the major conglomerates went off-shore, rising from just under a billion rands in 1998 to about R9 billion in 2000, R17 billion in 2001, and R24 billion in 2005.

Many of these off-shore South African companies have increased their foreign shareholding since the millennium. While BHP Billiton, for example, has the second highest market capitalisation on the JSE, this is only half of the total entity, and only 22 percent of its shareholding is South African based. Anglo-American has just 26 percent local shareholding; Old Mutual 32 percent.

Whereas the last century saw increasing South Africanisation of ownership and activity, with some positive implications for the apartheid economy, many of these conglomerates are now rapidly globalising their ownership, activities and networks, with less and less connection to South Africa – even though a major portion of their global profits derive from their South African operations.

## 7. Black Economic Empowerment (BEE)

One key characteristic of post-apartheid South Africa is its affirmative action programme, meant to address the legacy of racist inequality. This is known as 'black economic empowerment' or BEE. The new government's initial approach to BEE was a moral one, encouraging the white conglomerates to un-bundle and sell off parts of their business empires to aspirant black capital. When the pace was too slow, government took a more assertive and regulatory stance, issuing charters that established 'voluntary' targets for change in ownership, participation, training etc, as well as developing a code of practice, monitored by the Department of Trade and Industry and aimed at sectors such as agriculture, transport, autos, information, and communication.

The pace of such empowerment is still slow, if judged by the share of JSE market capitalization under black control. This rose rapidly to about 10 percent in the mid-1990s following the initial period of heightened expectations. It fell to less than 1 percent in 1999. In 2004, the BEE stake was under 4 percent (70 percent of which is accounted for by one firm, the media and communications giant, MTN), despite the stock exchange boom of these years. Other indicators, however, suggest that the impact of empowerment policy has been greater.

The beneficiaries of BEE are a small elite, closely linked to the ruling ANC and the trade unions. Most have accumulated their wealth through boardroom deals, and a few have started large new businesses. Self-enrichment is the rule of the day rather than broad-based empowerment.

The President's brother (Moeletsi Mbeki) has been one of the most strident critics of BEE, arguing that it was invented by South Africa's mega mining and finance corporations in the 1990s, as a kind of reparation in response to what they believed was possibly a far worse outcome – the nationalisation of the commanding heights of the South African economy (Mail and Guardian, 28.4.2006). An early example of BEE was the sale of Sanlam's Metropolitan Life (Metlife) to a black consortium that included the Mandela family's doctor and the Secretary-General of the ANC, with a loan from the IDC.

Emerging black capital has not expanded the nation's forces of production, nor has it typically accumulated its own capital. It relies on special share deals, affirmative action, quotas, fronting, privatisation and trading on its one real piece of 'capital' – access to state power – to establish itself, a point made by the South African Communist Party and by others.

Some of the larger BEE deals have been concluded in sectors such as telecommunications, media, entertainment and financial services – all vulnerable to global market fluctuations. Many did not survive the 1997 stock market crash. Freund observes: "it is an interesting and cautionary tale that [the] early projects, such as the two companies [called] NAIL and Johnnic, ultimately proved failures" (Freund 2005: 218).

The finance needed for BEE deals relies heavily on the 'once empowered', the merchant bankers and others who lie just below the surface of these transactions, but some BEE parties have quickly sold off some of their shares. Unless the new Broad-based empowerment code (BB-BEE) closes off such options (how to do so in a free market economy?), it is hard to see the government's objective of driving towards a truly non-racial South African capitalism being achieved in this way.

It could be argued that foreign companies entering South Africa at this time would have been more receptive to transformation and empowerment than their white South African counterparts. Stephen Gelb's (2002) study of 162 foreign firms entering South Africa since the 1990s reveals a mixed picture. Foreign investment has not expanded BEE ownership levels, but has promoted black participation in high skill job categories more effectively.

In March 2007, two Italian granite firms sued the South African government, arguing that BEE laws violate international investment treaties. They claimed that South Africa's mining charter, which seeks to boost involvement of blacks in the sector that excluded them during apartheid, amounts to expropriation. Their lawyer asked, "why are foreign investors, who never invested here before 1994 and never benefited from the apartheid system, why are they subjected to this form of redress?" (Weekend Witness, 10.3.2007). The case is ongoing.

Sean Jacobs has argued that "black capitalism arrived too late on the stage of capitalist economic development in South Africa [...]. Unlike the growth of Afrikaner capital earlier, which was strongly supported by various state corporations, the state today cannot do much to support black capitalism when it is shedding its assets to market forces" (Jacobs 2001: 11).

There is little evidence of a new generation of business(wo)men of Indian origin emerging to take advantage of black economic empowerment – certainly none in the league of African recruits to South Africa's new corporate elite. Do they not bring enough political clout and connections to the boardrooms? Or have they been content to grow more gradually using their own business experience and capital?

A notable exception is the firm 'J&J' – initially a technology and finance services business established by Big J Naidoo (the first Secretary General of the Congress of South African Trade Unions – COSATU, a Cabinet Minister in the first Mandela government, and currently the Chair of the Development Bank of Southern Africa) – and Small J (once a high-profile trade unionist and the first executive director of the National Economic Development and Labour Council – NEDLAC). This company has expanded rapidly into other areas, including a partnership with India's Tata Group in energy development. Its venture into the health sector has secured agreements with two major Indian generics companies. The group has a strong relationship with the London-listed Old Mutual plc. It launched what was then the largest e-procurement company in South Africa.

## 8. Developments in corporate governance

Numerous models of corporate governance are to be found, but the Anglo-American version has come to dominate debate and practice. Corporate governance according to the Anglo-American model means that firms should strive to maximise shareholder wealth or value. This requires effective boards, with an adequate number of appropriately qualified and experienced outside directors (non-executive, independent), management compensation aligned to shareholder interests, and a market for corporate control. Yet this is not the only way to corporate success. Toyota's board of directors has 60 people and only one outsider! Its management is paid less than in the US, and traditionally the members don't have stock options. There are no hostile takeovers to speak of. And they out-compete their American rivals in the global auto market.

France's 'financial network economy', in which Chief Executives (PDG) wield enormous power, remains largely intact. Here, boards tend to be rubber stamps for the largely autonomous actions and decisions of the CEO. The French system is also characterised by "small groups of investors, drawn from the same elite, [who] control one another through interlocking shareholding. Building upon the elite's informal networks, such close relations between firms, boards and large shareholders provide a degree of coherence and direction to France's [network] economy" (Clift 2004: 93). In 1995, the 300 board seats on France's top 40 companies were held by just 75 individuals.

South African companies have over the last 10 to 15 years increasingly shifted to an Anglo-American corporate governance model, practising what Goldstein (1999: 1) calls the "new global management mantra of shareholder wealth maximization." South African companies continue to be influenced by developments in the UK (the Combined Code updated in January 2003) and US (where the Sarbanes-Oxley Act of July 2002 was passed in order to prevent situations such as the Enron scandal). This practice stresses a unitary board, avoidance of conflicts of interest, independence, accountability and transparency. In contrast to the French model, the boardrooms of South Africa's major corporations contain a far wider number of individuals, with the qualification that an elite group of black and/or women non-executive directors serve on a multitude of boards, as previously white companies attempt to meet the demand for transformation. A more thoroughgoing 'democratic South African capitalism', *even for the benefit of shareholders, let alone a broader community of stakeholders*, is still some way off.

The dramatic growth of the private equity industry in recent years is already narrowing the beneficiaries of capitalism in post-apartheid South

Africa. Though there are many new South Africa players (Brait, Ethos, AMB Private Equity etc), most of the private equity firms with real financial clout are foreign owned. The value of assets under management by private equity firms in South Africa stood at about R55 billion at the end of 2006, compared with R44 billion one year earlier. The number of private equity (PE) buy-outs for 2006 alone stood at 761! As a result, "some of the JSE's top 40 companies could disappear from the exchange and into the portfolios of foreign private equity funds, reducing investor choice, depriving existing shareholders of future earnings growth and transferring ownership" (Directorship Magazine, 4th Quarter 2006: 6). Among the local targets identified for buyouts then were Edcon, Shoprite, and Alexander Forbes. Edcon, which first listed on the JSE in 1946, was recently bought out by US PE firm Bain, and will soon be delisted.

The beneficiaries of this growing practice include the investors in private equity firms, the professional fund managers, and the country (through capital inflows where the private equity firm is foreign owned); but the model is partly driven by the possibility of circumventing corporate governance guidelines and other regulatory obligations applying to public companies. Critics have pointed to how PE firms fiercely resist greater transparency and public scrutiny. They in turn argue that greater transparency will 'rob them of their magic'.

There is not yet much sign of shareholder or stakeholder activism in South Africa. The private equity industry, like hedge funds before it, will not improve this situation and may even reverse the expectation of spreading the benefits of corporate capitalism to broader sectors of society. One inevitable victim will be the goal of greater economic democracy that South Africans hold dear.

By February 2007, black people held 180 out of a total 603 directorships of the top 40 companies listed on the JSE, but about a third of these are held by just 22 individuals. They include Cyril Ramaphosa, Ruell Khosa, Danisa Baloyi (who sat on over 100 boards until her recent troubles), and Khaya Ngqula (who sits on 38 boards while running SAA full-time).

Women in chair positions on JSE-listed company boards represent just 1 percent, or just two individuals. Only 5 percent of all executives and 8.2 percent of non-executives on the JSE are women. This last figure is in line with the US and Australia, and is significantly below Norway and Sweden, where the comparable figures are in the 15 to20 percent range.

The country's largest global corporations have changed little at the top, remaining overwhelming white and male. Anglo-American Public Limited Company has just one black non-executive and one woman executive on its main Board. Canadian-born Cynthia Carroll will break the mould somewhat when she takes over at Anglo-American plc, becoming the first female CEO of a top 40 company. BHP Billiton has no blacks and just two (white) women on its Board. Richemont has no black directors, Liberty International has just one non-executive director who is not white. SAB Miller has a Board of 16, of whom two are (white) women and one, Cyril Ramaphosa, is the only black (non-executive) director. Old Mutual plc had just two blacks on its 11 member Board in December 2005.

## 9. Labour process and workplace restructuring

Is the racist-based, authoritarian workplace of the apartheid era changing at all? Webster and von Holdt (2005: 27) suggest that "instead of a decisive break with the apartheid workplace regime, there is a more complex pattern of continuity", including a reconstitution of an "authoritarian post-apartheid workplace order in which work organization and worker attitudes are less important than new forms of control and higher workloads."

The negotiations leading up to 1994 and after placed much store on 'institutionalised social dialogue', on a social accord to ensure that the various stakeholders, such as the trade unions, businesses, government and community organisations would play a role in shaping the key economic institutions of the post-apartheid economic system. NEDLAC came into being in February 1995. Its mandate centred around negotiations, participation, consensus seeking and co-ordination, being modelled "to a large extent on successful institutions of social dialogue in other parts of the world, notably Holland and Ireland, but with adaptations to take account of the development challenges of South Africa" (Parsons 2006: 10). Compared, say to Italy and Mexico, its mandate "does not encompass macroeconomic concertation [co-ordination]."

Parsons identifies around 50 other countries, mainly in the developing world, with NEDLAC-type institutions. Its 'engine room' consists of four chambers (Labour Market, Trade and Industry, Public Finance and Monetary, and Development) with the 'community' represented in the dysfunctional 'Development Chamber'.

NEDLAC has limitations, as the experience around the formulation of the new government's neo-liberal Growth, Employment and Redistribution Strategy (GEAR) demonstrates. Parsons observes: "Initially, government indicated that the basic policy lines of the GEAR strategy were *not* negotiable, even within NEDLAC. This was partly because implementation of the strategy was deemed to be urgent, partly because some elements like interest rates, taxes and fiscal deficits were not practically negotiable in *any* modern economy, and partly, it seems safe to say, because the Government surmised (correctly) that organised labour would strongly oppose GEAR. Whatever the reasons, it put considerable strain on the NEDLAC processes." (Parsons 2006: 13). In short: an important component of co-ordinated market economies is now missing from South Africa's capitalism, even compared to the late apartheid period!

## 10. Conclusion

Since 1994, as argued powerfully by Roger Southall: "South African capitalism has become more rather than less like the contemporary capitalism of the western world: no longer contained and protected by state-imposed barriers, domestic conglomerates have increasingly 'unbundled' and internationalized; international and domestic finance capital is increasingly dominant over manufacturing; shareholding is concentrated in the hands of the institutional investors, whose fates are determined by managers who are less and less accountable [even ] to shareholders [...] few women are smashing through the 'glass ceiling' and corporations remain overwhelmingly male territory; and the gap between the financial rewards to top management and their workforces is widening alarmingly in a country where patterns of inequality are already deeply entrenched" (Southall 2006: 198).

If I am right, South African capitalism is less different from the old model than most would have hoped for not long ago. It is dominated by a powerful mineral-energy complex whose principal actors now play on a global economic stage; it has, more generally, assumed an increasingly global character in contrast to a long period of South Africanisation going back at least to the founding of Anglo-American Corporation in 1917; corporatist institutions such as NEDLAC exert less influence over economic and social policy than was originally envisaged; capital has found new and different forms of cheapening labour power; and, despite talk of changing the racist structure of post-apartheid capitalism, corporate control and decision-making still rests with the old guard – male and white. Where South African capitalism has changed, as in corporate governance and to some extent in the finance system, it has led to it being placed even more firmly within an Anglo-American variant of capitalism.

In short, any claims that South Africa is now a more gentle, humane place, more stakeholder-oriented, more transparent and democratic, more caring and more connected to society, let alone 'proto-socialist', 'non-capitalist' or 'anti-capitalist', would appear to be somewhat exaggerated.

1) I would like to acknowledge the advice of my friend and mentor, Professor Keith Hart, with whom many of the ideas in this paper have been debated for an extended period.

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## Abstracts

This paper aims to explore the specificities of South African capitalism before and after democratic change in 1994. It draws on the growing European literature on the "varieties of capitalism". Marxist, institutionalist and structuralist approaches are introduced and eclectically drawn upon in order to describe and assess the South African case, both historically and in the contemporary period. Throughout, the paper tries to get to grips with the relationship between the democratic state and various factions of capital – old, new, black and reconstituted. South African capitalism is less different from the old model than most would have hoped for not long ago. It is dominated by a powerful mineral-energy complex whose principal actors now play on a global economic stage; it has, more generally, assumed an increasingly global character, in contrast to a long period of South Africanisation going back at least to the founding of the Anglo-American Corporation in 1917; corporatist institutions exert less influence over economic and social policy than was originally envisaged; capital has found new and different forms of cheapening labour power; and, despite talk of changing the racist structure of post-apartheid capitalism, corporate control and decision-making still rests with the old guard – male and white.

Der Autor untersucht in diesem Aufsatz die Besonderheiten des südafrikanischen Kapitalismus vor und nach der demokratischen Wende von 1994. Er bezieht sich dabei auf die wachsende europäische Literatur zu *Varieties of Capitalism*. Zudem integriert er marxistische, institutionalistische und strukturalistische Zugänge, um das Fallbeispiel Südafrika sowohl historisch als auch zeitgenössisch zu beschreiben und einzuschätzen. Dabei nimmt die Beziehung zwischen dem demokratischen Staat und verschiedenen Kapitalfraktionen (alt, neu, schwarz, wieder hergestellt) eine wichtige Rolle ein. Der südafrikanische Kapitalismus unterscheide sich weniger vom alten Modell vor 1994 als bis vor kurzem von vielen erhofft worden war. Er wird von einem mächtigen Mineral-Energie-Komplex dominiert, dessen wichtigste Akteure nun auf globaler wirtschaftlicher Ebene mitspielen. Im Unterschied zu der langen Periode der Südafrikanisierung, die zumindest bis zur Gründung der Anglo-American Corporation 1917 zurückgeht, hat der südafrikanische Kapitalismus nun einen zunehmend globalen Charakter. Korpo-

rativistische Institutionen üben weniger Einfluss auf die Wirtschafts- und Sozialpolitik aus als ursprünglich vorgesehen. Das Kapital hat neue und unterschiedliche Formen gefunden, die Arbeitskraft billig zu machen. Der Rhetorik über eine Veränderung der rassistischen Struktur des Post-Apartheid-Kapitalismus zum Trotz verblieb die Unternehmenskontrolle weiterhin bei der alten Garde: weiß und männlich.

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