

Debt and the historical geography of South Africa's uneven and combined development

'Varieties of capitalism' versus dynamics of capital accumulation

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1. Introduction

The Varieties of Capitalism (VoC) school may one day be judged yet another of those traditions of political economy imported to South Africa – such as Articulations of Modes of Production (early 1970s), Fractions of Capital (mid-1970s), Social History (1980s) and Regulation Theory (late 1980s-early 1990s) (about which see Bond 2011 for a review) – that at the time provide new insights worth considering, but that *fail as a framing strategy* because they are not ambitious enough or, alternatively, they say too much and hence too little. According to one of the most nuanced analysts of VoC, Greg Albo (2006, 235), the 'continued variation of capitalist development in the world market – its uneven and combined development' – was the subject of grand 1960s-70s narratives and as a result, many political economists have been preoccupied with

periodizing the phases of capitalism: conceptualizing the more abstract universal characteristics of capitalism as a specific historical form of organizing societies; locating the particular developments of different phases of capitalist development; investigating singular – or comparative – cases of class relations and social formations in their many concrete patterns of determination; and each level of analysis informing the other... (Albo 2006, 235-236).

In addressing these tasks, the critical problem with VoC, according to Albo and Trevor Fast, is that it suffers from 'the Weberian ontological privileging of autonomous institutions' and in turn underplays the critical underlying *dynamics* of accumulation that we can derive from classical Marxist theory. For example, 'national capitalisms are treated as analytically distinct from, and not constitutive of, the imperatives that emerge from the world market.' Yet in reality, 'National capitalisms are comparable precisely because they share common constraints and imperatives that arise from a similar set of social relations and social logic of reproduction, that are understood in their determinations both abstractly apart from particular cases and in their concretization in specific social formations, as part of an encompassing and interacting world market' (Albo and Fast, 2003, 1-6). Presenting this argument in Durban, Albo (2006, 232) continued, 'Although capital may be differentiated into national contexts (or David Harvey's socio-spatial fixes), these institutional variations and class relations are increasingly subordinated to the structural imperatives' of global accumulation – thus evading any VoC-oriented enquiry that is based upon national units of analysis. Albo warned against

the fallacy of generalizing from already determined institutional variations of individual capitalisms to make claims about comparative capitalism without grasping and beginning from the social logic of the whole... Theorizing the specific varieties of capitalism across history and in different social contexts does not begin with deductively deriving models of individualized market exchanges or inductively generalizing from institutional and distributional particularities... Capitalism has always been a social system driven by the encompassing accumulative imperatives of a world market, yet also differentiated by spatially specific processes of stratification and the particularities of the class relations necessary for the production of value (Albo, 2006, 232, 250).

How, then, do we maintain the benefits of periodization – seeking out ‘particular developments of different phases of capitalist development’ – while retaining the overall theoretical ‘social logic’ of uneven and combined development? In the pages below, this challenge is addressed by focusing our analysis upon a series of local/global *capitalist crises*, in which the ordinary social logic of accumulation is interrupted and an external process – usually devalorization of capital – and restructuring of capitalist and race-related social relations take place so as to restart accumulation. The varieties of accumulation imperatives that have buffeted South Africa – which we find most revealingly during times of crisis – are the subject of this chapter’s sweep of the past two centuries of political economic processes.

A few words may be useful to contextualize this challenge. It goes without saying that accumulation crisis, geopolitical maneuvers and financialization combine to generate worsening uneven development – and anthropologists inspired by David Graeber’s (2011) *Debt: The first 5000 years* will hopefully soon make further connections linking finance to uneven *and combined* development involving accumulation-by-dispossession of non-capitalist social and natural relations. Giovanni Arrighi’s (1994) *Long Twentieth Century* set this argument out by way of long cycles and the rise and fall of hegemonic blocs. Also from a world-systems perspective, Christian Suter’s (1992) *Debt Cycles in the World Economy* considered stages in the long-wave, beginning with technological innovation and utilising international product cycle theory.

Even mainstream analysts, like Barry Eichengreen – writing for the World Bank (2000, Appendix G) in the wake of East Asia’s late 1990s crisis – have observed that during global-scale debt crises of the 1830s, 1880s and 1930s, the response of roughly a third of debtor nations was formal default, but that since the 1980s, a new option – ‘restructuring’ (IMF/WB bailouts of commercial bankers at the expense of structural adjustment for the debtors’ populace) – emerged, reflecting centralised creditor power, hence drawing out the debt cycle for a much longer period than before. The act of state/taxpayer-funded bailout followed by austerity-oriented restructuring was repeated numerous times in the period 2008-2012 in even wealthy countries, in order to displace the deeper crisis, once again confirming the political power associated with the financial circuits of capital. However, it is equally apparent that the bailout plus restructuring approach is not a decisive resolution of accumulation crisis, but instead leads to increasingly dangerous threats of not just moral hazard but systemic failure arise from ‘throwing money at the problem.’ As a result, there is growing awareness that rising speculative financial bubbles characterize the last stages of capitalist crisis prior to a systemic crash.

But any historical review of two centuries of capitalist finance needs to incorporate what happens in between the moments of crisis, given that extending formal monetary relations through provision of organized credit to nascent (or malfunctioning) markets is a central tenet of the orthodox, modernization strategy of development. Making finance the motor force behind the geographical expansion of economic activity (Corbridge, Martin and Thrift 1994) has the effect of generating an expansion of the space-economy *through time*. This process can be termed the ‘annihilation of space by time’ (as did Marx and Harvey) to reflect the temporal (time-related) characteristic of credit. From the bill of exchange (the primary breakthrough in trade centuries ago) to contemporary innovations in financial securitization, finance allows *spending to take place today but to be paid for tomorrow*, the effect of which assists in displacing (not resolving) crisis tendencies in the short term, but over longer time horizons, can be devastating when boom-bust cycles reach the point of downturn. The so-called ‘temporal fix’ to overaccumulation results when finance not only speeds the turnover time of capital, but also, as Harvey (1982) argues, sends surplus capital into ‘the production of goods that have long term future uses in production or consumption.’ This helps to displace crisis in the short-term, but exacerbates the overaccumulation problem down the road.

There is also a ‘spatial fix’ to overaccumulation, Harvey (1982) insists, for by serving a geographical displacement function (such as through foreign lending), finance can send ‘surplus money to another country to buy up surplus commodities.’ Again, this amounts to a short-term displacement of overaccumulation which comes back to haunt the lending country when, in order to pay off the debt, the borrower must cut imports from, and increase exports to, the lender. The same principle works at other geographical scales.

The challenge in the coming pages is to link South African episodes of extreme ‘uneven development’ – by which is meant the polarization of resource distribution and investment across sectors, spaces and scales (local through global) (Smith 1990, Bond 1999) – to those speculative-financial processes that seem to recur in patterns closely related to cycles of capital accumulation. As Neil Smith (1990, 4) explained this challenge more generally,

uneven development is the hallmark of the geography of capitalism. It is not just that capitalism fails to develop evenly, that due to accidental and random factors the geographical development of capitalism represents some stochastic deviation from a generally even process. The uneven development of capitalism is structural rather than statistical... Uneven development is the systematic geographical expression of the contradictions inherent in the very constitution and structure of capital.

This chapter considers the ways such contradictions periodically led to full-blown crises, over a dozen periods in two centuries of South African history. Writing about uneven and combined development in South Africa in the context of the recent world financial meltdown, Samantha Ashman, Ben Fine and Susan Newman (2010, 178) argue that, ‘it is necessary to examine the specific form that neoliberalism and financialization have taken in the region, and how wider changes in the world economy and capitalist development have interacted with the legacy of the apartheid past.’ We begin by exploring the case study, South Africa, before moving to the 19th, 20th and 21st centuries for evidence.

2. South African geography as extreme site of debt-created unevenness

Rosa Luxemburg (1968), a century ago, studied the relationship of crises and uneven and *combined* development in South Africa, amidst other sites: 'Accumulation of capital periodically bursts out in crises and spurs capital on to a continual extension of the market. Capital cannot accumulate without the aid of non-capitalist organizations, nor ... can it tolerate their continued existence side by side with itself. Only the continuous and progressive disintegration of non-capitalist organizations makes accumulation of capital possible.' If we consider the combination of capitalist and 'non-capitalist' as not just affecting organizations but peoples, families, women's status within the region's notorious migrant labour systems, commons, state services and the environment, a great many aspects of socio-economic life are incorporated into a theory of uneven and combined development. Such 'articulations of modes of production', as Harold Wolpe (1980) explained the South African social formation, remains the backdrop for the great bursts of financial and economic transformation that occurred during a dozen distinct periods in the country's capitalist history (as I attempted in more detail in Bond 2003):

- early crises of the 1810s-60s;
- the turbulent emergence of the financial-mining nexus during the 1870s-80s;
- massive centralization of financial-mining capital during the 1880s;
- the relation between financial speculation and politics during the 1890s-1900s;
- the reassertion of local control during the 1910s;
- financial restructuring of local economic geography during the 1910s-20s;
- international financial collapse during the 1930s;
- the gold-based recovery of the 1930s-40s;
- the rise of Afrikaner finance during the 1930s-50s;
- the financing of post-war development;
- the 1980s-90s transition-era rise of finance during capitalist crisis;
- followed by severe vulnerabilities in contemporary financial capital.

Two critical threads throughout this history – the accumulation dynamics and institutional forms that shaped finance – are analysed by Ashman and Fine (this volume). But the geographic features of South Africa's core capitalist dynamic should be integrated as well. With the exception of the work of Alan Mabin (1984, 1985, 1986), previous studies of South Africa's uneven geographical development did not typically emphasise switches in funding flows between production and finance. According to Mabin (1989), 'the debate on uneven development has assumed such generalised form' in South Africa in part because it has avoided 'the more intricate and difficult questions posed by the rise of new foci of investment and power.' Nor have economic studies helped, for even if banking and monetary matters are well-researched, space as the receptacle of South African financial capital's ebb and flow has not been systematically documented or theorized.

The point of the pages that follow is not that financial capital is *always* the driving force behind either systematic political-economic inequalities or uneven geographical development. However, at particular moments the rise of finance becomes a dominant factor in the space-economy of investment, *which in turn amplifies unevenness*, with sometimes

startling impacts upon politics and society, not just accumulation.

3. 19th century financial crises

Graeber (2011) argues that, working through financial markets, the most critical factor in socio-economic relations is the state's coercive capacity:

What we see at the dawn of modern capitalism is a gigantic financial apparatus of credit and debt that operates – in practical effect – to pump more and more labor out of just about everyone with whom it comes into contact, and as a result produces an endlessly expanding volume of material goods. It does so not just by moral compulsion, but above all by using moral compulsion to mobilize sheer physical force.

In South Africa, this goes without saying, given structured racism from the earliest explorations and colonial land grabs. The introduction of money was slow and uneven in this context, given the primary function of the Cape Colony in provisioning to the trade routes following the Dutch East India Company's 1652 invasion. Formal banking (government-run) in the Cape Colony only began during the 1790s. Before long this set in motion an important shift in the local circuit of capital: from an economy structured along purely commercial and agricultural lines to one dangerously oriented, at times, to the logic of finance. For example, during the 1810s, following the British occupation of the Cape as a spoil of the Napoleonic Wars and concomitant with a similar process underway in Britain, the colonial government printed excessive amounts of money. Succumbing to international financial power in this manner quickly led to currency devaluation and vicious inflation, which severely damaged local and international trade (Schumann 1938).

Ironically, such imported financial negligence created sufficient uncertainty in local markets to limit the subsequent penetration of foreign merchant and financial capital, and thus permitted the growth of some small, indigenous Cape banks, especially during the 1830s and 1840s. But in their ascendancy, they in turn imitated the colonial government's lax monetary style, printing specie freely against risky investments. In his study of South African business cycles, economic historian C.G.W. Schumann (1938, 63-74) concluded that the most spectacular early boom and collapse in the Cape – the 1854 'copper-mining mania' (which was also an early indication of the power of finance to affect the region's spatial evolution, in this case up the Cape's previously-undeveloped Karoo region) – was 'evidently of a purely financial and speculative character. It reminds us strongly of the speculative manias during the 18th century in Europe and England, especially the South Sea Bubble of 1720.'

During the 1860s, financial capital from London – especially the Standard Bank of British South Africa, Ltd whose initial capitalization was seven times that of the single largest locally-funded bank – entered the Cape Colony and applied similar principles. Following the 'intense boom in banking expansion', as Schumann described it, came the 'inevitable reaction.' A severe banking crash started in Port Elizabeth in 1865, borne of 'overintensified speculation which had reached breaking point.' In turn, this kicked off one of the century's worst depressions (Schumann 1938, 75-80). Diamonds were found at Kimberley two years later, and so Cape colony flows of capital gradually switched circuits again, from agriculture into

mining. Yet renewed prosperity largely depended on expanding regional trade, reflecting the power and vision of finance, according to Mabin (1989, 150): 'The banks, and particularly the imperial banks, had been instrumental in creating the urban system by 1880.' Again the spatial and sectoral switch in accumulation was a function of financial capital's capacity to respond to – and in turn to influence – the market, and of its concurrence with that era's geopolitics, the deepening of colonialism. For with the diamond finds, Britain rediscovered South Africa, and carried out both the full-fledged subjugation of African kingdoms during the 1870s and the invasion of the Afrikaner Transvaal Republic in 1877. Foreign investor confidence, spurred by Rothschilds in particular, was high at the time, thanks largely to millions of pounds the British pumped into the local economy to ensure victory in the various wars. The Transvaal fighting can itself be traced, in part, to a financial foreclosure: the powerful Cape Commercial Bank was facing problems in getting Transvaal government loans repaid. Once the British had annexed the province, Standard immediately moved in to set up branches, a process so fraught that it catalysed the Afrikaner nationalist movement which subsequently fought the Anglo-Boer War so vigorously (Gilliomee 1989).

Geographic expansion pushed by and flowing from the power of finance was incapable of solving the underlying problems in the productive sector: the lack of sustainable, balanced routes for accumulation. Actions of the London-based banks exacerbated the structural dilemma. As Schumann (1938, 85-86) concluded of diamond share speculation,

Unsound banking practices, over and above the natural credit expansion inherent in an elastic monetary system, had greatly contributed to the overintensity of the boom, while the rapid curtailment of credit after 1881 must be considered as the main cause of the extreme severity of the depression. There can be little doubt that the banks had acted indiscreetly. They were severely criticised at the time, and the criticism was largely justified.

Even if the conditions for crisis were deep-rooted, the 1881 crash could be blamed – as did J.A. Henry (1963, 32), Standard's biographer – on the general manager of Standard Bank (a frugal Scottish immigrant), who 'decided that the time had come to call a halt' to the diamond share speculation: 'It cannot have escaped him that in doing so he would expose his bank, and South African banks in general, to an intense degree of embittered opprobrium, corresponding to the inflated hopes of the bubble which he was about to prick.' Such interference was not taken lightly by its victims, especially innocent farmers driven to ruin. In what was to become a repeating pattern, the Afrikaner Bond gained political mileage from bank-bashing, arguing in the early 1880s that London bankers were 'draining the country.' In an early call to ethnic nationalism, the Bond went so far as to start its own banks in Stellenbosch and Hopetown. Standard, labeled a 'gigantic devil fish' by leading Afrikaners, responded to the populist anger by officially dropping 'British' from its name in 1883 (Gilliomee 1989, Standard Bank 1988).

Imbalance characterized the broader economy of the late 19th century, for local circuits of capital were slow to include manufactured commodities, relying mostly for surplus extraction upon mining, which was subject to frenzied speculation, and agriculture, which faced the uneven development of markets, price volatility and weather-related interruptions.

The articulation of capitalist wage relations with pre-capitalist traditions, via racial oppression, was gradually becoming generalized, along with more traditional forms of labour control, and industrialization was limited to primitive mining equipment and a few rudimentary goods. In this context, mining companies displayed the classic organizational tendencies of concentration and centralization of capital, under the direction of Rhodes and Barnato. This process was inordinately influenced by the banks, which, notes Mabin (1989, 150), 'facilitated both the enrichment of the magnates and their purchase of still more shares. The involvement of bankers in attempts to merge companies at Kimberley in the mid-1880s was largely due to their desire to recover losses incurred through speculation in poorer companies.' In the process, the financiers transferred a great deal of the region's wealth from investors in the coastal areas to the emerging diamond magnates, and hence subsequently to the mining houses which so profoundly shaped the development of the entire sub-continent. This was accompanied by concentration of the financial sector itself, as the London banks shook out smaller competitors.

However, as the influx of overseas capital and the concentration of the banking system proceeded apace, the supply of credit ballooned and then burst again in 1889. Again the crash followed intense financial speculation, and again the catalyst for speculation was the discovery of minerals – this time gold – and the excessive issuance of mining company shares (some fraudulent). Bank branch officers on the Rand were hopelessly out of touch with their head offices, according to accounts of the time, and overfed the stock market beyond what company balance sheets could bear. The subsequent collapse of the productive economy in 1890 was heightened by the simultaneous depression in England arising from another financial crash, the Barings crisis. The downturn allowed further centralization of capital, through the support given by banks to the emerging corporate form known as the mining finance house.

By the mid-1890s, as deep-level mining of gold began on the Reef, the most speculative tendencies of the ascendant financial and mining circuits were heightened and speculation again reached fever-pitch, according to Henry (1963, 101):

The market value of South African shares quoted on the London Stock Exchange, which had stood at less than £20 million at the beginning of 1894, had risen to over £55 million by the end of that year. The movement continued without interruption for nine months more, so that the figure of £55 million was itself trebled... Nor was speculation entirely confined to shares. Land and property in Johannesburg were also changing hands at fantastic prices and the whole town was in a fever of excitement.

With English-Afrikaner tensions heavy in the air and the Jameson Raid imminent, confidence suddenly faltered, and September 1895 ushered in a new crisis. By this time, the key components of South Africa's historical geographical development – the power of mining houses, limits to the availability of superexploitable labour, and tensions between imperial capital and Afrikaner nationalism – were reflected in the machinations of financial markets. To sum up, during the late 19th century, as a result of the agricultural elite's weakness and the lack of industrialists, widespread financial catastrophe often resulted in an even more powerful centralization of capital which in turn prepared the ground for an even deeper round of mining speculation and economic manipulation. As Schumann (1938, 128)

surmised, the late 19th century crises 'marked the culmination points of business cycles in a more modern sense. They had become organic in character and had affected the whole of the South African economic system.'

South Africa was not alone in facing these turbulent, finance-driven economic processes, for Ian Phimister (1992, 7) contends that the political realignment of the entire African continent emanated from 'capitalism's uneven development during the last third of the nineteenth century, particularly the City of London's crucial role in mediating the development of a world economic system.' As Britain faced industrial decline during the 1870s in both absolute and relative terms, manufacturers unable to compete in European markets joined ascendant London financial and commercial interests in promoting Free Trade philosophy (in contrast to the protectionism of other Europeans and the United States) (Cain and Hopkins 1980, 484-485). Indeed it is here, and in a parallel crisis of French merchant capital in West Africa, that Phimister (1992) locates the well-spring of the 'Scramble for Africa' which had such an important role in the region's subsequent development.

4. 20th century conflicts, crises and consolidations

As the 20th century began and the Anglo-Boer War came to a close, banks continued to shape development through an overly-conservative lending policy for commerce and industry but excessive enthusiasm for the speculative land market. As seen from Standard offices in 1907, reports Henry (1963, 150), 'The country's superstructure of capital and credit was still too heavy for the volume of trade, and although the four colonies were beginning to work more freely together, the salutary process of reducing the number of commercial units by stress of competition would have to be carried further.' Such convictions may have crucially dampened prospects for economic recovery, but the final straw was the 1907 financial crash in the US, which led to a collapse of South Africa's exports of diamonds for luxury consumption.

During the late 1910s, the geography of finance and local capital accumulation again came into profound conflict. Alongside the growing mining houses, the imperial banks were still at the centre of the economy, leaving smaller district banks to founder. Following another round of takeovers from 1910 to 1926, South Africa's banking system was reduced from seven banks to just two big London banks – Standard and Barclays – and the smaller Netherlands Bank of South Africa headquartered in Amsterdam. Collusion wasn't difficult; even before Union in 1910 the main banks set artificial interest rates and banking charges to the disadvantage of savers. Lending, however, remained influenced by speculative tendencies, according to Henry (1963, 222):

Certainly until 1920 a spirit of reckless competition had tended to reduce progressively the quality and security of bank advances, as well as to endanger the cash position of the banking system as a whole. Profits had in some quarters been expanded at the expense of reserves, and the provision against bad debts and contingencies was sometimes so neglected that in times of stress the position became critical far too easily. This, in a country as much exposed to natural hazards as South Africa, was to play with fire.

Although technically the banks were still controlled from abroad, pressures on the

international gold standard – the system which rendered local and British currency directly convertible to gold – were, by the end of World War I, weakening the power that the City of London exerted over South Africa’s financial system (Ally 1994, Gelb 1989). London banks were under extreme war-time and post-war stress due to inflation, the devaluation of the British pound and the rise of New York City as a competitor. Their South African branches were able, for the first time, to more fully turn their attention to local manufacturing and Barclays’ predecessor helped set up the state-owned National Industrial Corporation in 1919 to that end. The banks’ easy credit policies fuelled an inflationary boom in 1918-20, generating fear of repeating the financial chaos of the previous century. Some of the tension also arose from nationalist concerns that England was still playing too dominant a role in the South African economy, and some revolved around the uncertain role of gold as a base for the currency. In 1918, a gap between the value of gold and the declining South African currency – technically still tied to gold – led to enormous smuggling. To halt this, gold was formally delinked from the currency in 1920. When conditions improved in 1925, South Africa returned to the gold standard.

Ultimately, Union authorities decided, the only solution to the financial uncertainty was to create a local Reserve Bank to act as a guarantor for the banks and for the South African currency. In the ensuing struggle over the character of banking regulation, the Reserve Bank was essentially put under the direct ownership and control of bankers, unlike in other countries where the state owned the central bank (Gelb 1989). Meanwhile, J.P. Morgan’s New York-based financial empire gained a toehold in South Africa through its role in the founding of Ernest Oppenheimer’s Anglo American Corporation. The weakening of London’s links to South Africa opened space for local capitalists to influence financial and monetary policy. The Reserve Bank’s first big challenge was a bail-out of the National Bank, a victim of the financial chaos of the early 1920s. The rescue was facilitated by the Bank of England and by the conclusive rescue of the National Bank in a 1926 takeover by the Anglo-Egyptian Bank and the Colonial Bank, the result of which was the formation of Barclays (Barclays Bank DCO 1938).

While changes in the international financial system were having a dramatic, largely beneficial impact on local economic self-reliance, similar processes were unfolding at the local level in many rural areas. They involved the indebtedness of both Afrikaner farmers and black sharecroppers. As historian Timothy Keegan (1986, 44, 97) reports, this was a phenomenon with deep historical roots, such that ‘a chain of debt leading to the wholesalers was at the basis of agrarian exchange relationships.’ When formal property loans began determining land-ownership patterns, matters became serious for indebted small farmers, Keegan reports:

From the 1840s onward in the sheep districts, increasing land values, the penetration of the interior by mortgage and speculative capital and the widespread contractions of debt that these entailed, combined to render landownership a precarious status for many, particularly during commercial depressions... As a result of the unrelenting pressures on landowners with heavy mortgage debts to meet, there was a strong resistance amongst many Boer farmers to bonding their property. The grip of mortgage capital was an irksome burden, and farmers were deeply conscious of the greatly unequal exchange relations that their own dependence on the credit of others imposed... It was hardly surprising, given the vicissitudes of agriculture, drought, stock disease, pests and war, that wherever

loan capital penetrated it could potentially reduce the landowner to a state of dependence.

English bankers foreclosed on Afrikaner land during the waves of crisis in the early 1880s, the late 1890s and during the depression of the 1910s. Intensification of production on indebted land was one logical structural result of such pressures. Another was the strength of DF Malan's populist nationalist politics (Giliomee 1989, 79). In 1912, such demands led to the formation of a state Land Bank whose operations, nevertheless, still reflected the power of bankers and large landowners (it allowed them to use state funds to liquidate land taken by foreclosure, even where speculation had ratcheted land values to new heights). Disaster struck when the next severe economic downturn arrived in 1920. Prime Minister Jan Smuts castigated the banks for having 'granted credit too easily and then curtailed it too drastically,' and after surveying the evidence Schumann (1938, 263) concludes, 'The indictment against the banks at the time that they became somewhat hysterical in their contraction of credit seems to be not unfounded.' Demands were made by white farmers for a moratorium on loan foreclosures and for a State Bank to compete with the commercial banks.

As the crisis spread, by 1923, South Africa had eleven times as many insolvencies as England and thirty-four times as many as Scotland. In 1924 the Agricultural Credits Bill promoted the introduction of rural Credit Societies, a stronger Land Bank, and a favoured position for farmers in their dealings with lenders. Nevertheless, credit again began to spin out of control, and was not limited to overindebtedness on the farms. 'The larger centres in South Africa were overburdened with members of a trading and speculative class whose activities had a disproportionate influence on prices and prospects, but contributed very little to output and production,' reported Henry (1963, 227) about the mid-1920s. 'This was beginning to look too much like an endemic weakness in the commercial community and in the social structure of the country.' The year 1929 brought many of the tensions into sharp relief. Local bankers were extremely bullish, as their ratio of loans to deposits soared from 63 percent in 1926 to 85 percent in 1930, with half of the increase coming in 1929. Land speculation meant that 'in some districts the value attributed to farm property looked to be 50 percent too high,' according to Henry (1963, 230). 'Standards had changed, and these were the days of the motor-car, bought for 30 percent of its cost in cash, and the rest on credit.' As often happens just before a fall, overproduction of agricultural goods became rife, and the government intervened with increasingly protectionist policies. Imports of wheat, flour and sugar were discouraged, and a Marketing Board was established to support South African exports.

Across the world, speculative stock market activity was also acute during the late 1920s, reflecting global overaccumulation crisis. The 1929 crash was initially felt in South Africa mainly by the diamond merchants, since rich New Yorkers' panic liquidation of their personal assets flattened prices. As the broader depression set in and the general price level of most goods fell over the next few years, agricultural products bore the brunt of the devaluation. Further state intervention was required on behalf of rural whites, especially new laws supporting debtors' rights. White workers and displaced farmers made a series of proposals for rural credit cooperatives and for municipal banks in Johannesburg and Durban during the mid-1930s.

South African exports – with the exception of gold – were also affected. When exports

decline, one antidote is to devalue the currency. But when a country is on the gold standard, the currency is valued according to how much gold the country has in reserve stockpiles. When such countries go deeply into debt and import more than they export, their gold stocks naturally decline in order to make payments. Most major countries had already adopted the gold standard in the last quarter of the nineteenth century, mainly because of pressure from commercial capitalists to have convertible currency so as to lubricate international trade. The South African situation after the 1929 crash was heavily influenced by this logic. As the full force of what would be a decade-long depression came to bear upon the global economy, and as country after country fell into debt, the gold standard became an anachronism. It had been resurrected by Britain in 1925, following a six-year lapse, in order to stimulate international trade. But during the 1930s, too many countries simply couldn't afford to back their currencies with gold, and in 1932, after Britain abandoned the gold standard, thirty-two countries followed, with only France, Belgium, Switzerland and the Netherlands holding out until 1936. Without a way to root the value of currencies, international trade stagnated and protectionist currency blocs developed. South Africa was part of the British colonial Sterling Area, while North and South America traded with dollars, central and southeast Europe were ruled by German finance, the Japanese yen was the East's currency, and a small gold bloc was maintained in western Europe. As the world's leading gold producer, South Africa had no technical difficulties remaining on the standard. But because the value of the South African currency remained high relative to other currencies, exports suffered. At the same time, investors were shifting enormous amounts of money out of South Africa (£20 million in 1932). By the end of 1932, the tensions were overwhelming and the country's social fabric was tearing. Mining houses advocated that SA abandon the gold standard and devalue.

There were many results, as a new era of productive and inward-oriented investment began. Prior to 1932, banks typically lent to companies at around 6 percent (for three-month commercial bills) while paying savers 3.5 percent (for six-month deposits). Bank lending was controlled less by price (the interest rate) and more by restrictive conditions. By 1933 the rates changed dramatically: 5 percent for loans and 0.5 percent for savers. Within months of going off the gold standard, gold and agricultural exports picked up again (though diamonds remained weak), and the rest of the economy followed (Schumann 1938, 295). On the one hand, interest and dividends paid to overseas investors (down from £17 million in 1926 to £13 million in 1932) rose dramatically to £18 million in 1933. On the other hand, during the subsequent fifteen years, the South African economy was relatively isolated from international manufacturing trade, and thus financing was increasingly directed towards the nascent local manufacturing industry. In a manner Andre Gunder Frank (1967) observed occurring elsewhere on the global economic periphery and which helped generate many of the insights of the 'dependency school,' manufacturing grew in inverse relation to the strength of trade in the international economy. Positively affected by Northern depression and war, South Africa spent the period from 1933 through the 1940s growing faster (8 percent average GDP increase per annum), more evenly across sectors, and with larger relative wage increases for blacks (from 11 percent to 17 percent of the total wage bill), than at any other time in the 20th century (Nattrass 1981). (Later, as South Africa reintegrated into the world economy, racial biases were amplified, as, for example, the black wage share stagnated, reaching just 21 percent by 1970.)

The two decades after World War II witnessed the intensification of production (higher capital-intensity) in mining, agriculture and production middle-class consumer goods (Fine and Rustomjee 1996). Access to international capital, organised by the local mining houses and stock market immediately after the war, was checked only briefly by Afrikaner nationalist threats of nationalization. There were a variety of new financial innovations, including accommodation of corporate investment needs by emerging money markets and of housing needs via building society expansion. Duncan Innes (1984, 150) argues that creative financing arrangements in the years following World War II reflected a broader process of concentration and monopoly control unfolding at the international level: 'By adapting and reorganising their methods of fund-raising to meet the requirements of the new system the [South African mining-based] groups participated directly in the process of restructuring the financial relations of international monopoly capitalism.' A quarter of the mining industry funds were raised from mining Trust Funds in the US and Switzerland, while 7 percent came from new local financing sources such as the government's National Finance Corporation, founded in 1949 to gather and deploy corporate savings. The brunt of the money was sourced from British financial institutions, mainly banks, insurance companies, pension funds, investment and trust units, and various other institutional investors. Such funding capacity and reach reflected the rise of finance to the British economy's commanding heights, which began during the 1920s, and, in spite of the global financial crisis of the early 1930s, culminated in their holdings of more than half of the stock exchange shares by the mid-1950s. The financial links forged during the 1950s drew South African capitalism back into the global economy. In turn, this led to such financial dependence that by the 1970s the international anti-apartheid movement discovered that it represented the country's Achilles Heel, and hence began to focus sanctions pressure on international banks.

Substantially similar processes of financial expansion were underway within the English-speaking sectors of the South African economy during the 1940s and 1950s, paralleling the Afrikaner route to broader economic control via locally-sourced finance. As Dan O'Meara (1983, 114) reported, thanks to

the centralization and segmentation of latent money-capital generated in agriculture, a new class of Afrikaner financial industrial and commercial capitalists would be brought into existence... M.S. Louw was indeed correct when he declared to the second *Ekonomiese Volkskongres* that the greatest achievement of 'the Afrikaner' as an entrepreneur during the 1940s was as the 'founder and controller of credit institutions.'

Across South Africa, consumer credit markets blossomed for the first time, and urban areas sprawled thanks to new institutional sources of finance. Construction grew by a factor of more than six between 1943 and 1952, twice the growth rate of industry. As a result, the apartheid state found major private sector allies, including banks and building societies, for the construction of Soweto, Guguletu, Kwa-Mashu and so many other townships whose matchbox houses multiplied during the 1950s. Peter Wilkinson (1981) reports that 'Johannesburg property speculators, estate agents, building societies and construction firms had mobilised and were lobbying for a policy of home ownership and massive state financed building programmes.' That they were unsuccessful on the home-ownership front for a period of some three decades – victims of the larger apartheid vision of blacks as temporary

sojourners – did not ultimately prevent a new generation of creative financiers from returning to the issue with renewed vigour during the 1980s (Bond 2000).

As industry became more capital-intensive and internationally-oriented during the 1950s, a much more sophisticated financial system was required. The channelling of funds from mining companies to manufacturers was achieved in large part through the expansion of mining houses into industry. But it also occurred through the development of money markets which centralised finance and then disbursed it to where it could realise the highest rate of return. These markets were serviced by brand new financial institutions, which were largely set up by the big mining houses. According to Innes (1984, 150), this ‘was the clearest form yet of the merging together of bank capital and productive capital – that is, of the emergence of the phase of finance capital.’ Bank-friendly regulation of the national financial structure would also need to adapt to keep pace with developments. A 1964 banking law allowed banks and building societies greater depth and reach. Funds available to the banking sector soared, and financing on the Johannesburg Stock Exchange was boosted dramatically, until a crash in 1969, following a huge increase in inventories in the consumer goods sectors, the first signs of overaccumulation of capital.

But from the 1960s, high levels of capital-intensive investment led to chronic overproduction, relative to the size of the local market (for more details see Bond 1991 and Bond 2005). The results were a levelling off of new fixed capital investment by private corporations (both local and TNC) from 1973; a substantial decline in the economy’s growth rate from late 1974; a steady drop in manufacturing employment from 1975; and a substantial fall in private sector investment in plant and equipment from 1976. Liquid capital flowed from productive sectors and into the money and capital markets. Fuelled by the dramatic rise in the international price of gold from 1971-81, once the US ended its Bretton Woods-era linkage to the dollar, an inordinate amount of capital was subsequently attracted into geographical expansion over the subsequent decade. Spatial displacement strategies included the internationalization of the mining finance houses; an enormous boom in construction; unprecedented parastatal expansion (iron and steel, electricity, oil-from-coal, transport); outward-oriented investments such as Richards Bay, Sishen-Saldanha, and the unprecedented upgrade of SA Airways; a renewed commitment to world-class transport more generally; infrastructural improvements for business and residential development; and the extensification of urban sprawl. From 1970-77, state spending in transport, storage and communications increased by 65 percent each year in real terms beyond similar investments during the 1960s; and during the same period new infrastructure for electricity grids and water lines attracted 28 percent more funds each year than during the 1960s (Bond 2000).

The major projects also involved a great deal of foreign borrowing: nearly a quarter of parastatal investment from 1972-78 was funded through international capital markets. After the Soweto uprising in 1976, Pretoria gained access to International Monetary Fund loans amounting to nearly \$2 billion (until borrowing rights were cut in 1983 due to anti-apartheid pressure). However, given the durability of the overaccumulation problem and the fact that the 1979-81 gold boom had to run its course, not to mention resurgent social protest and brutal state reaction, foreign banks finally lost confidence in apartheid and agreed to cut credit lines for all but short-term trade finance. Unable to roll over the vast loans contracted

by private sector borrowers (especially the large banks), Pretoria was ultimately forced to call a 'debt standstill' in 1985 and refused to make repayments on more than \$13 billion in foreign debt (out of a total of \$20 billion then outstanding). Relations between Pretoria and international finance were, as a result, contested hotly by the liberation movement, reflecting not only the increased power over South Africa's future wielded by international financiers, but also the banks' increased vulnerability, to popular pressure, for a change.

This in turn compelled Pretoria to follow 'loose money' policies locally that included encouraging the allocation of credit into geographical areas it had not penetrated in the recent past, namely black townships, as well as the decentralized manufacturing sites in homelands where a fifth of manufacturing relocated in search of subsidies by the late 1980s. Financial liquidity was growing, with the private sector debt/GDP ratio rising from a stable level of 30 percent during the post-war era, to 50 percent during the 1980s and more than 65 percent by the late 1990s. Housing finance grew especially rapidly during the last half of the 1980s, as banks and building societies invested in an estimated 200,000 township housing mortgage bonds. Politically, this addressed an oft-articulated need to identify a new outlet for surplus funds (black townships) which would both enhance the potential for piling on even more consumer credit once collateral (the house) had been established, and introduce an inherently conservatising form of social control (repayment of a twenty-year bond). But the R10 billion was enough to saturate only the top tenth of the market, those who could afford new houses costing in excess of R35,000 (smaller loans were administratively too costly), and it was done in a manner that cemented rather than undermined apartheid urban planning. Moreover, the variable-rate bonds were largely granted at an initial 12.5 percent interest rate (-7 percent in real terms at the inflation peak in 1986).

With an official return to monetarist ideology (as well as anti-apartheid financial sanctions and fear of capital flight), nominal interest rates on housing loans soared to 21 percent (then 6 percent in real terms) in 1989, leading to the country's longest-ever depression (1989-93) and, in the process, a half-million job losses and 40 percent default rate on the bonds granted to black borrowers. For the next decade, township lending essentially ceased. Moreover, the financial explosion also infected commercial real estate and the stock market with untenable speculation. For notwithstanding the overall economic stagnation, from 1982-90, the JSE produced an eight-fold nominal increase in share values, and was the fastest growing stock exchange in the world from 1989-mid-1992. In 1991 JSE industrial shares increased in price by 56 percent, while the industrial economy suffered negative growth. This 'financial explosion,' as it was termed across the world during the late 1980s (Sweezy and Magdoff 1987), was profitable to South African banks, which increased their margins between what they charged borrowers and what they rewarded savers (from 2.25 percent during the late 1980s, the spread doubled by the end of the depression, with a consequent growth in profits to record levels and a huge rise in share values of banking stocks). In short, financial activity borne of economic crisis had helped reshape South African geography, in the process intensifying uneven development.

The early-1990s deracialization of apartheid entailed an elite transition (Bond 2005) of white Afrikaner political rulers to black in Pretoria, with Johannesburg's white English-speaking capitalists retaining overall control of the economy. The agenda of the most

powerful white (and a few black) capitalists was to move their capital stocks and flows offshore, and so the period was marked by several policy shifts away from 1980s-era sanctions-induced dirigisme carried out by *verligte* (enlightened) Afrikaner economic bureaucrats in the finance ministry and central bank (*econocrats*), once the influence of the militaristic *securocrats* faded and the power of white English-speaking business rose during the 1990–1994 negotiations. This period included South Africa’s longest depression (1989–1993), itself exacerbated by the adoption of extreme monetarism (a rise of 12 percent in the real interest rate from 1988–1989) and the first stages of state-enterprise privatization (Bond 2005). Political processes were accommodating during the early 1990s, as the long-standing African National Congress (ANC) *Freedom Charter* promise to nationalize the banks, mines, and monopoly capital was dropped; Nelson Mandela agreed to repay US\$25 billion of inherited apartheid-era foreign debt; the central bank was granted formal independence in an interim constitution; South Africa joined the General Agreement on Tariffs and Trade on disadvantageous terms; and the International Monetary Fund provided a US\$850 million loan with standard Washington Consensus conditions attached, including reducing wages and maintaining a high interest rate. Soon after the first free and fair democratic elections, won overwhelmingly by the ANC, privatization began in earnest; financial liberalization took the form of relaxed exchange controls; and interest rates were raised to a record high (often double-digit after inflation was discounted). By 1996, a neoliberal macro-economic policy was formally adopted, and from 1998 to 2001, the ANC government granted permission to South Africa’s biggest companies to move their financial headquarters and primary stock market listings to London, representing an extraordinary case of capital strike that left reinvestment in South Africa at a durably low level.

5. 21st century financialization, uneven development and protest

Sustaining the subsequent property and financial bubble required the retention of residual exchange controls that limited institutional investors to 15 percent offshore investments and restricted offshore wealth transfers by local elites, as confidence in neoliberal macro-economic management continued. There is an oft-repeated claim that under Finance Minister Trevor Manuel, macro-economic stability was achieved. Yet no other emerging market had as many currency crashes (15 percent in nominal terms) over that period: South Africa’s crashes happened in early 1996, mid-1998, late 2001, late 2006, late 2008 and mid-2011. *The Economist* (February 25, 2009) ranking of South Africa as the most ‘risky’ of 17 emerging markets was because corporate/white power had generated an enormous balance of payments’ deficit due to outflows of profits/dividends to London and Melbourne financial headquarters.

To cover the current account deficit, a vast new borrowing spree began, with foreign debt rising from US\$25 billion in 1994 to nearly US\$80 billion by late 2008 and US\$115 billion by 2012. Moreover, consumer credit had drawn in East Asian imports at a rate greater than South African exports, even during the commodity price bubble of 2002–2008. If there was a factor most responsible for the 5 percent GDP growth recorded during most of the 2000s, by all accounts, it was consumer credit expansion, with household debt to disposable income ratios soaring from 50 percent to 80 percent from 2005 to 2008, whereas overall

bank lending rose from 100 percent to 135 percent of GDP. Credit overexposure began to become an albatross, however, with non-performing loans rising from 2007 by 80 percent on credit cards and 100 percent on bonds compared to the year before, and full credit defaults as a ratio of bank net interest income rising from 30 percent at the outset of 2008, to 55 percent by the end of the year. By late 2010, the main state credit regulator registered 'impaired' status for 8.3 million South African borrowers, a rise from 6.1 million impaired borrowers in 2007 (Davel 2011: 1).

Influenced by the global financial meltdown and economic contraction, South Africa's real estate market began a long-overdue correction after the local currency and financial markets crashed in late 2008. Although they subsequently recovered after March 2009, further real estate decline resumed after the 2010 World Cup boost, and the Johannesburg Stock Exchange closely tracked that of New York, including the mid-2011 crash. Unemployment worsened and, even into the first quarter of 2012, when most other countries showed job growth in nominal recoveries, continued to rise in South Africa. Not even excessive local credit expansion or the boost in infrastructure spending associated with ten new or refurbished World Cup stadia could restore economic sectors whose 2000s 'success' was the world's highest real estate bubble (389 percent larger in 2008 than in 1997, double the height of second place Ireland's bubble).

Although the decline in corporate tax revenue drove the budget deficit to a near-record 7.6 percent of GDP in 2009 and a bit less in 2010, South Africa was not pursuing a classical Keynesian strategy. The state was instead carrying through with massive (often irrational) construction projects contracted years earlier, such as the World Cup stadia. Anticipated increases in state spending based on ruling party promises – especially for job creation (500,000 new jobs were promised, but, in fact, 2009–2010 would see 1.3 million job losses) and the launch of a National Health Insurance – were deferred by the new finance minister, Pravin Gordhan (2009), in his 2009 and 2010 budget speeches. Only in mid-2011 was the health plan proposed as a *Green Paper*, with a still-delayed start, insignificantly-sized pilot projects, and many loopholes that would allow the private sector to continue health financing for the wealthy. As another reflection of a weak commitment to a post-apartheid welfare state, the share of social spending in the total budget only rose from around 50 percent during the mid-1990s to 57 percent at the peak of the crisis (from 12.5 to 15 percent of GDP), boosted only by social grant transfer payments mainly to the elderly and single mothers. Another manifestation of the economic pressure was social protest, which rose after 2000 to levels among the world's highest, *per capita*, with police measuring 5,000–10,000 protests per year from 2004 onward.

The huge bubble in energy resources (including coal), minerals, cash crops, and land disguised the extent of vulnerability for countries like South Africa, and indeed the early 2000s witnessed increasing optimism that the prior (late 1990s) emerging markets currency crises could have been overcome within the context of the system, simply through strategic bailouts and ever faster liberalization. Moreover, even before the resources boom, by 2001, the rate of profit for large South African capital was restored from an earlier downturn from the 1970s to the 1990s, to the ninth highest rate amongst the world's major national economies (far ahead of the U.S. and China) (Citron and Walton 2002). But

resurgent corporate profits were not a harbinger of sustainable economic development in South Africa as a result of persistent deep-rooted contradictions (Davies 2009, Legassick 2009, Loewald 2009).

6. Conclusion

Only by shifting to a looser monetary policy, gripping more tightly onto national resources, and turning them into development will society survive the ongoing international financial crisis and its local downturn. The critical step in that direction is to reduce vulnerability to global markets and adopt a much more locally oriented development strategy. The very first sign of this awareness was leading Pretoria Department of Economic Development official Saleem Mowser (2012) who, in a newspaper article defending the hiring of Joseph Stiglitz as an international advisor, allowed that his alleged competitor in the Treasury – the Harvard Group of economists – ‘came to fundamentally the same conclusion: one of the biggest challenges confronting the local economy is currency overvaluation and volatility – and it requires active interventions to address this. Interestingly, the two lead economists of the Harvard Group recently signed petitions supporting the use of capital controls as legitimate and necessary policy instruments.’ This was the first mention I am aware of by state officials that imposition of capital controls is ‘legitimate’ and worthy of debate, notwithstanding that they were single-handedly responsible for preventing financial contagion from affecting China and India, and they helped turn around economies including Malaysia and Venezuela in the past fifteen years.

There is a South African precedent that is worth discussing: the 1930s era of selective deglobalization during which South Africa’s growth per capita was the highest in its modern history. At that time, *import-substitution industrialization* occurred in South Africa (as well as in Latin America) along its most balanced trajectory, with much of local manufacturing industry established during the 1930s, as well as national assets such as Eskom and Iscor. The years of high growth were not reserved for whites alone, and indeed the rate of increase of black wages in relation to white wages occurred at their fastest level ever during the period 1933–1945. The reason for the era of relatively more autonomous, self-reliance development was the crisis of the world economy, from the 1929–1933 financial payments freeze to the 1930s Great Depression, and to the 1939–1945 disruption of commercial shipping due to war. This meant that regardless of intent, South Africa followed advice given by John Maynard Keynes (1933, 769):

I sympathise with those who would minimise, rather than with those who would maximise, economic entanglement among nations. Ideas, knowledge, science, hospitality, travel – these are the things which should of their nature be international. But let goods be homespun whenever it is reasonably and conveniently possible and, above all, let finance be primarily national.

Today, with advice from the Bretton Woods Institutions prevailing in South Africa, with Gordhan relaxing exchange controls yet further, with foreign debt rising dramatically and a persistent high outflow of profits and dividends, indeed whether to stay the course of market-based reforms would increasingly occupy the society. The most important single disruption to the logic occurred on the roads of Gauteng in April 2012, when in advance of

a massive strike timed to halt traffic on the 'e-tolled' highways, the government appeared to give in to the trade unions and white middle-class critics of commercialized highways. The punishment in early May was swift, as Moody's – working on behalf of international finance – lowered the SA road agency's international credit rating. But this in turn would permit even further questioning of whether South Africa had now become far too vulnerable to international finance.

In sum, across a variety of scales, uneven development is generally *accentuated* during those periods (such as at present) when financial institutions increase their range of movement, the velocity and intensity of their operations, and simultaneously, their power over debtors (whether companies, consumers or governments) (Harvey 1982, Clarke 1988). But with power comes vulnerability, as is evident enough at the turn of the 21st century, after two decades of spectacular financial crises across the world, and corresponding spectacular levels of uneven development over the prior two centuries in South Africa. It is here that a certain logic is unveiled: varieties of capitalism are perhaps best addressed through contemplating the various ways that capital flows amidst crisis, in and out of the financial circuits, across scales and spaces of uneven accumulation, and in a manner that entails non-capitalist superexploitative opportunities, especially in relation to gender, racial and ecological dynamics. An overarching theory of why these processes are periodically amplified can be found in Marx's approach to uneven and combined development, from which the varieties of capitalism then make better sense.

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