KAPLAN

UNIVERSITY OF THE WITWATERSRAND

A F R I C A N   S T U D I E S   I N S T I T U T E

African Studies Seminar Paper
to be presented at Seminar in
RW319 at 4.00 p.m. on Monday,
27 April 1981

THE CURRENT 'UPSWING' IN THE SOUTH AFRICAN ECONOMY AND THE INTERNATIONAL CAPITALIST CRISIS:

A Reinterpretation of South African 'Development'

by Dr. D. Kaplan

I. INTRODUCTION

This paper attempts to situate the current economic 'upswing' in the South African economy in the context of the on-going economic crisis which is plaguing the international capitalist economy. I will argue that the two phenomena are integrally linked. The principal features of the international capitalist crisis and, even more centrally, the measures hitherto taken to resolve this crisis, are the *principal* factors contributing to the present 'upswing' in the South African economy.

The first section outlines the major features of the international capitalist crisis and the measures taken to counteract it. The second section examines some aspects of the current 'upswing' in the South African economy. In the final section, in the form of a critique of some writings on the subject, some implications for the future trajectory of capitalist development in South Africa are drawn.

Clearly, there are highly complex issues involved, and a short article can only hope to provide some fruitful points for departure.

II. PRINCIPAL FEATURES OF THE CONTEMPORARY INTERNATIONAL CAPITALIST CRISIS

I would suggest that the following are the *central* specific features of the current crisis:

1. This is indeed an *international* and a *capitalist* crisis. The downswings and (to a lesser extent) the upswings in the economies of all the advanced capitalist countries are closely synchronised.

2. The recession of 1974-5 was preceeded by a long period in which the *rate of profit was tending to fall* in the advanced capitalist countries. In the post-recession period, rates of profit were increased somewhat, but not dramatically.

3. The *upswing* following the severe recession of 1974-5 has been weak, hesitant and of short duration.

4. *Inflationary pressures* are international and endemic. They are only somewhat moderated when recession deepens.

5. The crisis is associated with a *changing configuration of imperialist forces*. This is often summarised as 'a decline in the hegemony of the United States'.

These features are all closely inter-related. However, for ease of exposition, I will deal with each in turn.

1. Capitalism is an international system and severe recessions - 1929 for example - have always been experienced simultaneously in virtually all capitalist countries.[1] In the more minor recessions, however, contractions in one country were frequently offset by expansion in other countries. The expansion of exports served to limit the recession in the former. But, the 1974-5 recession was felt everywhere in the capitalist world, if not in the same magnitude. Of the OECD countries, the decline in industrial production from peak to trough was greatest in Switzerland and Japan (about 20 per cent) and least in Sweden (four per cent), Canada (seven per cent) and Spain (10 per cent).[2] Moreover, the degree of synchronisation was very marked.[3]

   The *capitalist* character of the crisis is revealed most starkly by the fact that none of the principal planned economies suffered a decline in industrial production in 1974-6. While their rate of growth certainly declined, it was still distinctly positive.[4] The universality and synchronisation of the recession amongst the developed capitalist countries, is a testimony to the growing *internationalisation* of the capitalist system. This internationalisation has acquired a whole new dimension with the spectacular rise of the Multinational Corporations (MNCs), particularly post-1960, and the contemporaneous development of the international capital and money markets - notably the Euro-dollar market.[5] One major consequence of these developments, significant for the analysis here, is that the national monetary policies are likely to be rendered far less effective.[6] The Euro-dollar market allows for the rapid and unregulated switching of currencies, while national credit controls can be circumvented by companies borrowing abroad. Similarly, MNCs are able, using internal accounting changes, to transfer moneys into anticipated strong currencies.[7] At the same time, and for the same reasons, therefore, as nationally-based monetary regulation has become increasingly ineffective, the possibilities for 'private' speculation in currencies has much increased.[8]

2. The measurement of profit rates is difficult and there is no universal agreement on profit trends. However, most studies of the rate of profit have revealed a general tendency for the rate of profit to fall from *circa* the early 1950s. This is particularly true of the rate of profit in the principal capitalist country - the U.S.[9]

The 'recovery' in the rate of profit in the 1974-5 recession and the subsequent period was real, but by no means restored profit rates to their post-World War Two peaks. Again this is particularly true of the U.S.[10]

The explanation for the movement in the rate of profit, which is indeed *the* capitalist crisis, cannot be attempted here. But, it does seem to provide a striking verification of the Marxian thesis of a tendency for the rate of profit to fall in capitalism. This tendency occurs, in terms of Marx's analysis, as a consequence of a rising organic composition of capital, *unless* offset by an equal increase in the rate of surplus value.[11] Economic crisis can function so as to restore the rate of profit, in three primary ways. First, by the 'devalorisation' or indeed open destruction of capital - bankruptcies, plant-closings, etc. Second, through raising the rate of surplus value - growing unemployment, allowing for a limiting of wage increases, reduction in strike activity, etc. Third, through a reduction in the prices of raw materials, purchased mainly from the Third World.

All three occurred as a consequence of the 1974-5 recession, but to a limited extent. A number of raw material price decreases were recorded, but 'energy-related' commodities rose substantially in price.[12] Unemployment expanded significantly, and even in the 'recovery' period stood at historically high levels in the OECD countries.[13] This did allow for a tightening of labour discipline and real wage deductions in a number of cases[14] - but, labour organisation was such as to ensure that this was not of a sufficient magnitude to restore the rate of profit to its former levels.

The key issue is that of capital devalorisation - and here lies the explanation for the post-1974-5 period. The devalorisation of capital was distinctly limited. There were a few large-scale bankruptcies,[15] but the effects were largely limited to the smaller capitals. The 'corporate structure', monopoly capital of the large trusts, was little affected.

The underlying reason for the limited effect of the recession in terms of capital devalorisation, must rest with governmental counter-cyclical economic policies.[16] Various forms of monetary 'pump-priming' and deficit financing served to ensure that the level of output, for the economy *as a whole*, did not fall too catastrophically, while the harder-hit monopoly corporations were, in addition, accorded forms of direct subsidy.[17] These subsidies allowed them to continue in production.

With the capital stock largely intact, excess capacity, which had characterised production prior to the 1974-5 recession, continued in the 'recovery'.[18] The subsidised survival of Chrysler and many of the European car firms, for example, meant that the most efficient corporations were unable to operate at full-capacity. The continuance of excess capacity therefore limited the extent to which the rate of profit rose in the 'recovery' period.

3. The limited recovery of the rate of profit in the post-recession period was the principal factor underlying the weakness of the international capitalist economy.

As we outlined above, this limited recovery in the rate of profit is to be located in limited reductions in primary commodity prices, limited increases in the rate of surplus value, and, in particular, in a severely 'retarded' devalorisation of capital. The net effect was to ensure that reinvestment in productive activities was severely curtailed. This further encouraged investments of a more speculative character.

4. Inflation is a complex phenomenon, and no attempt is made to provide an explanation here. But, it does seem that inflation, which once again is a phenomenon of international capitalism, is linked to two principal factors. First, the economic dominance of monopoly corporations, and second, the expansionist monetary policies pursued by capitalist governments.[19]

Firstly, the absence of competition has allowed the larger firms considerable leeway to utilise their power to unilaterally raise prices without fear of retaliation.[20] Thus, even in a recession, larger corporations will tend to reduce their output, but increase their mark-up in order to maintain profitability levels.[21] A recession will moderate price increases, principally via the effect of a declining demand on the competitive sector and reductions in the prices of raw materials as demand falls.[22] Generally, only when the recession really deepens, and the larger corporations collectively have massive excess capacity, will this tend to provoke major price reductions in the monopoly sector.

Secondly, the expansionist monetary and fiscal policies of the advanced capitalist countries have led to a massive expansion of the money supply - both nationally and internationally, and this is particularly true of the United States post-1958 (see below). There is indeed a relation between the expansion of the money supply and the persistence of inflation. The development of international monetary and capital markets have provided an additional impetus, particularly by allowing avenues for the circumvention of tight money policies.[23] The massive budget deficits of the advanced capitalist countries in 1975-6 were the real reason for the subsequent 'recovery'. But, they added further impetus to inflation.

Apart from the state's general monetary pump-priming, in order to maintain the level of total demand, the other principal mechanisms designed to limit the recession by reinstating the rate of profit, are also clearly inflationary. Direct subsidisation of inefficient firms, tax reductions on company profits, assuming more of the costs of private capital, e.g. by subsiding or taking over scientific research, and various unproductive state expenditures which provide an outlet for capitalist production, e.g. defence, all contribute to inflation. The persistence of a condition of stag-flation (if not slump-flation) - the coexistence of stagnant production and rising prices - reflects the contradictory character of capitalism in its monopoly phase, viz. a tendency to the rate of profit to fall which produces stagnation, on the one hand, and an opposing set of counter-tendencies, primarily initiated by the state, which produce inflation, on the other.

These are structural, and hence endemic features of advanced capitalism. If inflation persists in the advanced capitalist countries - the continuing devaluation of paper currencies - this will clearly have major long-term repercussions for South Africa, the world's principal producer of gold.[24]

5. But, the value of the key official currency, the international reserve currency, the U.S. Dollar, is of particular importance. The declining value of the dollar is one reflection of the limitations of U.S. imperialist hegemony.

The agreement reached at Bretton Woods in 1944 had, as its bedrock, the convertibility of the U.S. Dollar into gold at the fixed price of $35 per ounce. This price had in fact been set as early as 1934, when the Roosevelt Administration, in the context of the U.S. holding massive gold stocks, had raised the price of gold. It had arbitrarily stopped at $35 per ounce.[25]

The strict convertibility of the dollar into gold depended upon two basic factors. First, maintaining a continuing supply of newly-mined gold, which could be purchased at that fixed price, i.e. a regulation of the gold market such that newly-mined gold would be offered to the Central Banks at $35 per ounce. Second, and closely interrelated, that the supply of dollars was restricted. The latter was the crucial condition - an over-supply of dollars would lead to a swapping of dollars for gold and a drain upon the U.S. gold reserves.

The U.S., in particular, sought to control the market for newly-mined gold by attempting to enforce sale through the Central Banks of the I.M.F. at the fixed price of $35 per ounce - a policy which was strongly opposed by South Africa.[26]

But, the crucial factor which finally destroyed the Bretton Woods Agreement was the persistence of massive U.S. Balance of Payments deficits. Whereas in the first decade or so after the War, there was a severe dollar shortage internationally, this gave way to ever-larger dollar surpluses.[27] The key turn-around date was 1958. In that year, U.S. gold reserves fell below the level of its official liabilities denominated in dollars. At the same time, the U.S. Balance of Payments produced a very large deficit. From this date, large outflows of gold from the U.S. continued unabated, as dollar-holders sought to exercise their right to acquire gold.

The U.S. responded by progressively and unilaterally cutting the links between the dollar and gold. This occurred in three major steps. In 1961, the 'Gold Pool' was created whereby several European countries made a commitment to sell some of their gold stocks in order to maintain the dollar price for gold. In 1968 the U.S. ended its commitments to private holders of dollars who now could no longer acquire gold for their dollars. In 1971 the 'gold window' was closed to official purchasers as well.

In very broad terms, both the persistence of the U.S. Balance of Payments deficit, and the measures taken as a consequence by the U.S. to cut the links between the dollar and gold, are to be understood in the context of U.S. imperialist hegemony. At the same time, it points to some of the limitations inherent in this hegemonic position.

The Balance of Payments deficit must be understood, in part, as a consequence of U.S. military expenditures. Such expenditures, particularly during the Vietnam War, led to a massive drain of dollars abroad directly, while indirectly funnelling much of the R and D, skilled personnel, etc. away from the production of marketed commodities.[28] U.S. 'Aid', special trade relations with 'strategic' countries like South Korea and Taiwan, and other factors linked to the U.S. imperialist presence made further contributions to the deficit. The challenges to U.S. hegemony - the direct resistance of Cuba and Vietnam for example, and the challenges posed by its economic rivals, the other developed countries, were severe threats to that hegemonic position and *inter alia*, contributed very significantly to the deficit.

But, the U.S. response reveals that, while challenged and circumscribed, its hegemonic position within the international capitalist system has, in essence, been maintained.[29] Instead of abiding by the rules of Bretton Woods and exercising expenditure reductions in order to limit its payments deficits, so stemming the outflow of dollars, a policy which would have entailed economic restraint at home and/or curtailment of U.S. 'activities' abroad, the U.S. has essentially adopted what came to be known as 'a passive strategy' for the Balance of Payments. In essence, this strategy, given elaborate theoretical justification by the economic 'establishment',[30] was that the U.S. should continue to run its economy at an 'optimal' level. The resultant outflows of dollars abroad would have to be 'absorbed' by other countries. The 'pressure' on other countries, notably the advanced capitalist-country rivals of the U.S., arises in two ways. First, they would be forced to buy dollars in order to maintain the value of the dollar because the dollar represented much of the backing for their own currencies. Second, an effective devaluation of the dollar or revaluation of their own currency would severely jeopardise their trading position *vis-a-vis* the U.S. Finally, a severe monetary crisis, brought on by a major decline of the dollar, would jeopardise the whole international economy.

The economic rivals of the U.S. have thus been forced to accept a situation whereby the U.S. runs persistent deficits, and to absorb the resultant dollar surpluses.[31] But, the fact that the major capitalist operates outside of the monetary rules, in order to ensure its continued hegemony,[32] has injected a tremendous note of uncertainty into monetary relations and the stability of the system. There clearly are limitations to this process of dollar absorption, and the spectre of a monetary collapse is consequently a real one. In addition, the outflow of dollars has added tremendously to international liquidity, and is the principal factor in the rapid growth of the Euro-dollar market. To reiterate, these developments have made a significant contribution to fuelling international inflation. Monetary inflation, and the threat of a monetary collapse, are the principal factors encouraging 'alternative' forms of wealth-holding.

The major conclusions to be drawn from the above analysis are summarised here.

Inflation, the devaluation of monetary assets, is a persistent and a *structural feature* of capitalism. Firstly, as a consequence of monopoly control of markets. Secondly, as a result of governmental policies designed to ensure the maintenance of demand. Thirdly, at an 'international level', as the consequence of a massive increase in international liquidity, which must be grounded in an analysis of U.S. imperialist hegemony.[33] At the 'national level', it represents the outcome of forces, principally directed by the state, designed to counteract the tendency of profit rates to fall. At the 'international level', it reflects the persistence of, but at the same time, growing threat to, U.S. imperialist hegemony.

One consequence of the latter feature has been the instability and devaluation of the dollar - the international reserve currency. There is an analogy here with the situation of the early 1930s. In 1931 the devaluation of the key reserve currency, the pound sterling, led to the first substantial price increase for gold.[34] While British hegemony in the imperialist system was uncontested, a strong currency could ensure a fixed relation between it and gold. Devaluation of the pound sterling reflected the decline in British imperialist hegemony. With American imperialist hegemony undisputed and the dollar strong, a similar period of a fixed price for gold could be maintained. The challenges to U.S. imperialist hegemony in the contemporary period, have once again, lifted the ceiling on gold.

At the same time as monetary assets have been subject to devaluation, the rate of profit in direct productive investment has been low and declining. This decline was only partially reversed by the major recession of 1974-5 - that the reversal was only partial was due primarily to the limited devalorisation of capital. As a consequence, capital is searching desperately for profitable avenues for 'investment' in order to ensure an adequate return.

Since neither productive investment, nor monetary assets, yield adequate returns, the search has been directed elsewhere.[35] A wide range of possibilities exist - property, antiques, certain raw materials, etc. and ever more crucially, gold and silver.

The U.S. has now cut all effective links between the dollar and a fixed quantity of gold. The controlled market for gold gave way to a two-tier market, and now effectively a free-market for gold. The price of gold is not now subject to any major manipulation designed to limit its exchange price. Thus, so long as these features of advanced capitalism which I have analysed as structural, persist, the international exchange price for gold, its overall purchasing power in terms of national currencies will *tend* to remain strong. While large fluctuations are indeed very likely, since this is now a speculative market and subject to many determinations,[36] the *underlying* trend for the gold price is likely to remain strong.

That this increase in the price of gold is not likely to be a passing phenomenon, since it is linked to structural features of contemporary capitalism has major implications for the trajectory of future capitalist development in South Africa.

III PRINCIPAL FEATURES OF THE CURRENT UPSWING IN THE SOUTH AFRICAN ECONOMY

The first fruits of the increase in the price of gold are to be seen in the current upswing in the South African economy.

Two features of the upswing stand out. Firstly, the high rate of economic growth, which has accelerated. Real GDP rose by 3,75 per cent in 1979 and in the first half of 1980 real GDP was 8,5 per cent higher than in the corresponding period of 1979.[37] Industrial production in June 1980 was fully 13 per cent higher than a year earlier. This is in marked contrast with the steep declines for the same period registered for most of the developed capitalist countries.[38] The second outstanding feature of the upswing is its duration. Three years of uninterrupted expansion make it one of the lengthiest upswings in the post-World War Two period - exceeded only by the upswing lasting from September 1961 to April 1965.

There are some signs of the rate of growth moderating in the short term. Capacity utilisation in manufacturing is at high levels,[39] skilled labour is in ever-shorter supply, export industries are likely to perform poorly as a result of the weak economic position of the advanced capitalist countries and finally, interest rates are likely to rise. However, at present there is little likelihood of a major economic downturn.

The key impetus to the upswing and the reason for its long duration and likely continuance is, of course, provided by the higher gold price. It is worth charting, albeit briefly, the principal ways in which the higher gold price has acted as a stimulus to the economy.

First, it has added substantially to governmental revenue. In 1971 Government revenue from gold mining (tax and share of profits) was about R120 million.[40] By 1975 this had risen R745 million, but it declined to R320 million in 1977. In 1978 the State's share rose dramatically to R937,3 million.[41] In 1979 State revenue rose 82 per cent to Rl.7030 million (State assistance to marginal mines declined 70 per cent to a mere R8 million),[42] and in the first six months of 1980, the amount paid was R2.006 million - an increase of 222,5 per cent over the same period in 1979.[43]

This has allowed for easier taxation policies in regard to the rest of the economy, and provides much leeway for future tax concessions in the event of an economic downturn.

Second, as a direct contribution to GDP, gold's share rose from 5,7 per cent in 1970, to 8,7 per cent in 1978 and 9,7 per cent in 1979.[44] Further increases are anticipated for 1980. Total mineral earnings rose from R1.563 million in 1970, to an estimated R14.000-R15.000 million in 1980.[45]

Third, the indirect contribution gold mining has made to the rest of the economy by providing a source of final demand.[46] The multiplier is said to be large, and the domestic value-added component of gold mining production as high as 93,7 per cent - with the import leakage thus very low.[47] The domestic value added is likely to have risen as the mines employ a higher proportion of local labour and as more intermediate and capital goods are produced locally. There is also some indication that foreign share-holding has declined marginally.[48]

Finally, and most critically, the increased price of gold has had a profound effect upon the Balance of Payments. South Africa's trade surplus was approximately R3.786 million in the first seven months of 1980 - or 26 per cent higher than in the same period in 1979.

> ... this year's surplus (1980) is entirely attributable to buoyant gold export earnings.[49]

The gold price has more than kept up with international inflation and comparing gold and oil prices over a ten-year period from 1970, gold has increased more.[50] The terms of trade including gold stand at 138 - as compared to 1 000 for 1972.[51] Moreover, the market value of South Africa's large offical gold stocks also increased substantially. In the past, economic upswings have been limited in their duration and extent by emerging 'foreign exchange bottlenecks'. As the economy has expanded so has the propensity to import, while to a lesser extent, exports have increasingly been diverted to the home market. Abstracting from gold, this phenomenon is already very evident.[52] The non-gold current account is significantly adverse, and has been since the beginning of 1979.[53] But, the high price for gold has produced a substantial surplus, and offical calculations show that a gold price of $570 per ounce will be sufficient to sustain a growth rate of 5,5 per cent.

But, the higher gold price has even more significant implications which go beyond its immediate impact. The medium- to long-term implications for capitalist development in South Africa are equally profound.

The higher gold price has occasioned very significant gold mining re-investment. The capital expenditure of the gold mines rose from R448,3 million in 1978 to R689 million in 1979 - an increase of 53,7 per cent.[54] In the first six months of 1980, capital expenditure has been estimated as increasing by a further 21 per cent.[55] While the surge in gold mining investment has been most dramatic, increased investment is also very significant in other mining - particularly coal. Capital expenditure by the mining industry as a whole rose from R693 million in 1978, to R1.013 million in 1979,[56] and according to the President of the Chamber of Mines, could top R3.000 million in 1981.[57] The value of new mining ventures already announced and scheduled to commence production on or before 1985, is well in excess of R6.000 million at current prices.[58]

The effects of this massive capital expenditure will be felt after a number of years. It will provide impetus to accelerated growth throughout the economy and ameliorate any downturn that might occur. The boom in South Africa post-1962 was the outcome of both the crushing of popular resistance and the removal of any immediate political threat, but also the increase in mining investment which occurred during the mid-1950s.[59] There is a significant lagged relationship between increases in mining and non-mining investment.

Increased capital investment has been far more significant in gold mining than in manufacturing. For the year ended June 1979, gross domestic fixed investment in gold mining rose 23 per cent, and for the year ended June 1980, it rose 39 per cent - a massive increase coming on top of a major increase the year before. In manufacturing, gross domestic fixed investment declined by nine percent in the year ended June 1979. By June 1980, it had increased by 27 per cent - but this is less significant given the declines in 1976 and 1977.[60] One of the features of the present upswing was the initial slow rate of growth of fixed investment in manufacturing. While this rate of increase has picked up very markedly recently, this has been after years of decline, and for the metal and engineering industries, for example, projected capital investment for 1980 is still below the figures for 1974-6.[61]

Whatever the final outcome of the different sectoral investments, it seems clear that mining, and gold mining in particular, has an increasing relative role to play in the future - both in terms of contribution to GDP, and even more especially, as an earner of foreign exchange.

This broad conclusion is further underlined by the increasing concentration of gold mining on the lower-grade ores. Grams per ton milled declined steadily from 13,18 in 1970, to 10,03 in 1974, 8,19 in 1979 and 7,45 grams in the first six months of 1980. This has had the effect of firstly very substantially increasing total mineable reserves, and secondly of substantially extending the working lives of the existent gold mines. As a consequence, all previous predictions about future output and the exhaustion of gold deposits, have had to be substantially revised.[62] The perennial prediction of the coming exhaustion of the gold mining industry, so often made in the past and upon which much of South Africa's economic policies have historically been partially based, again proves to be a mere chimera.

IV CONCLUSION

The expanded role for gold mining, and mining in general, in the South African economy will critically affect the whole pattern of social relations, in a wide variety of ways. I want here to only broadly sketch out some implications for the overall process of capitalist development. In particular, I want to examine critically some of those writings which have seen South African development as necessarily bound up with the expansion of manufacturing.

In the early 1970s, while the U.S. was finally closing the 'gold window', and before any substantial increase in the gold price had occurred, the influential Reynders Commission reported on South Africa's export trade. Through the 1960s, the manufacturing industry which was a substantial net importer, had grown faster than the primary industries of agriculture and mining, both substantial net exporters. This had produced a 'structural imbalance in the Balance of Payments'.[63] The dynamic sector in the economy, manufacturing industry, was thus likely to be severely curtailed in its future growth, in the absence of greater export earnings. The solution was seen to lie in the rapid growth of manufactured exports.[64]

The Commission's analysis and conclusions, in this regard, were readily accepted by a number of writers operating within a Marxist framework. Writing in 1978, by which time the price of gold had already risen very substantially, S. Clark reiterated the Commission's view:

> If South Africa is not to rely on a continuing run of unlikely accidents to sustain accumulation, it is necessary to solve the basic problem of the South African economy: the problem of the uncompetitive nature of South African manufacturing industry on world markets.[65]

For Clarke, as for the Reynders Commission, the expansion of manufacturing exports was the crucial *sine qua non* of further South African capitalist development. Increases in the price of gold were, in Clarke's analysis, simply relegated to the never-never land of 'the unlikely accident' and given no further consideration, while the Reynders Commission reached its conclusions with reference to a forecast of an increase in the gold price to $80 per ounce - a forecast considered optimistic.[66]

But, their analysis of the immanent crucial 'barrier' to further capitalist development in South Africa was not simply inadequate as a consequence of a refusal to consider the possibility of a substantial rise in gold prices. Both Clarke and the Reynders Commission present an analysis for the manufacturing sector and its export propensities that is highly questionable.

Clarke's analysis of why the South African manufacturing sector had not up to 1978, and will not in the foreseeable future, be able to increase its export earnings, rests on a view of the labour force as 'indisciplined':

> ... the weakness of South African manufacturing was never a technological weakness but always has been a weakness in the social relations of production. Thus South Africa has been technologically backward because capital has not installed modern technology (*sic*!). This is certainly in part because labour in the past was cheap, industry was protected, and the labour force was not highly skilled. However, modern technology also requires a 'disciplined' 'responsible' work force, and this South Africa did not have.[67]

Faced with this, Clarke states that capital and the South African State will be forced to undertake a process of 'restructuring':

> This restructuring involves primarily the intensification of labour and the tightening of work discipline in the manufacturing sector.[68]

The crisis is therefore one of production, particularly production in the manufacturing sector, which finds its expression as an acute monetary and Balance of Payments crisis:

> In their attempts to resolve this crisis, capital and the state in South Africa have to take the initiative in intensifying the class struggle, tightening labour control at the point of production and increasing the reserve army by the creation of relative surplus population. At this level there is no possibility of compromise, no basis on which concessions can be made to defuse the growing political crisis.[69]

Each of these suppositions is highly dubious. By what standards is South African industry technologically backward? Most centrally, what is meant by a 'disciplined' and 'responsible' labour force? Surely, throughout the 1960s and up until at least the Durban strikes of 1973, the period that Clarke is concerned with in respect of the development of manufacturing, South Africa had, from capital's viewpoint, an extremely 'disciplined' and 'responsible' work force? - measured in terms of strike activity, trade union regulation, the functioning of labour allocation mechanisms, etc.[70]

The Reynders Commission's analysis of the barriers to exporting on the part of the manufacturing sector stipulated a number of factors - a lack of export consciousness, the small size of firms, lack of knowledge, activities geared to import replacement and a rapid rise in domestic demand:

> ... the Commission has concluded that the industrial philosophy of a fairly significant number of local businessmen is not adjusted/attuned to exporting, and they are not equipped mentally, psychologically or physically (plant, equipment etc.) to enter this market.[71]

When the Commission made reference to the labour force, it tended to stress the shortage of skilled labour, the inadequate training of blacks, statutory barriers to 'Black advancement' and the gap between earnings and productivity. Labour 'indiscipline' or its equivalent did not feature in its analysis.[72]

One very central feature of South African manufacturing, namely the presence of extensive foreign ownership and control, nowhere features in Clarke's analysis of the barriers to increased manufactured exports. This is not at all surprising. Clarke's analysis of the 'Crisis' in South Africa,[73] concludes an article designed to deny the validity of a so-called 'fractionalist analysis of South African capitalism'. The so-called fractionalists had put particular emphasis on the divisions existent between foreign and local/national capital in South Africa's historical development.[74] Clarke strongly denied the validity of this distinction, and substituted an analysis based on 'capital in general', in which no distinction is made between such fractions.[75]

The Reynders Commission, working within a Neo-Classical theoretical framework, also has no concept of foreign capital central to its analysis of the operations of South African manufacturing industry. But, at a significant number of points in its report, the Commission records *empirically* the importance of this division.

Thus, in respect of the automobile industry, the Commission noted:

> Apart from cost disadvantages, local manufacturers/assemblers are all tied to overseas principals who are generally unwilling to allow the local firms to export. This state of affairs must be regarded as disadvantageous ... especially as regards exports.[76]

In regard to the factors impeding South African capital goods exports to less developed countries, the Commission again noted the importance of foreign ownership and control:

> There is also the fact that a not insignificant proportion of the manufacturing sector is controlled by international concerns, which naturally (*sic!*), give first priority to internal operations. The result of this practice is that South African subsidiaries of some international concerns do not export at all, although it is also true that others,

> because of their international character, are exporters of some significance.[77]

In respect of firms which utilised imported research and development in the form of franchises etc., these were frequently accompanied by restrictive clauses:

> Market restricting clauses ... limited the ability of local users to benefit from economies of scale by exporting; this was particularly valid in those cases where the user had achieved some success in the domestic market - the restricting clause in effect precluded him (*sic*!) from expanding his operations and achieving greater success ... It was furthermore submitted that South Africa was at times looked upon as an outlet for relatively obsolescent products, techniques and processes which would in any case have left little leeway for local users to compete in the international market even if there were no restrictive arrangement. Lastly, it was stated that where the product was composed of a number of components, the user was allowed to manufacture a limited range only and then required to import from the supplier at high prices certain vital components which were relatively easy and lucrative to manufacture.[78]

Foreign subsidiaries were often reluctant to export:

> Witnesses also alleged that the actions of many of these subsidiaries were determined by the interests of the parent company, e.g. should the local subsidiary wish to export it might be precluded therefrom by the fact that the parent company already had a plant in the territory concerned.[79]

And, in respect of foreign subsidiaries overall:

> In regard to subsidiaries of foreign concerns, the Commission was told that only a small number of these participated actively in exports, and that in these cases only a relatively small percentage were positive exporters i.e. exported more than they imported ... Moreover, very few of them which manufacture intermediate goods had investigated the exporting of their products to the parent company. A large number appear to be restricted to the local market or are restricted to export to certain countries only. No statistical evidence is available to substantiate these tendencies, but the Commission is satisfied that on the

> whole, they do present a fairly valid picture of the situation.[80]

In a world in which almost half of all trade is conducted by MNCs, and with about 40 per cent of international trade by capitalist countries accounted for by inter-firm trade or trade with related parties,[81] it is clear that the operations of MNCs play a critical role in the regulation and limitations confronting countries' capacities to expand their export earnings. It would seem clear that, in the case of South African manufactured exports, and the Reynders Commission findings support this, albeit that specific micro studies are lacking,[82] exporters are constrained via a range of technological agreements that prohibit/inhibit export, by the 'unwillingness' of subsidiaries to export to markets where another subsidiary is already in existence, and the general global profitability considerations of the MNCs which regulate inter-affiliate trade. The other side of the coin is that the high import propensity of the manufacturing sector, just as its low export propensity, cannot be seen apart from extensive foreign ownership and control which ties subsidiaries to import from Head Office, or other related subsidiaries, even where such products are locally available.[83]

Foreign control - whether exercised via majority- or minority-ownership or via forms of licensing agreements - is particularly prevalent in South African manufacturing industry. In agriculture, foreign participation is very small, while in mining, although foreign firms are not insignificant, the sector is, in the contemporary period, predominantly owned and controlled by South African capital.[84] Apart from dividend payments, the earnings of the mining houses are not subject to significant remission abroad. Backward and forward linkages are likely to be effected with domestic producers and not subject to transfer pricing.[85] At the level of research and development and technological contracting, the South African mining industry is itself pioneering much new innovation. The Chamber of Mines is at present directing a major ten-year programme of collaborative research which has already yielded many significant innovations.[86] Technological 'independence' is thus far more pronounced in this sector than in manufacturing and the subsequent remissions abroad in the form of technology payments will be far less than in manufacturing.[87]

The expansion of exports from the mining sector, gold mining in particular but not excluding other mineral products, such as coal, in the situation of higher 'energy' prices, is thus not only likely to continue, given the context of the continuing international capitalist crisis, but is indeed, from the standpoint of capital, likely to contain considerably greater 'benefits' than an expansion based on manufactured products. Moreover, in a world in which international trade amongst capitalist nations is dominated by the MNCs, it is by no means certain, contrary to Clarke, that any amount of 'restructuring', performed at a national level, can yield a significant expansion in manufactured exports.

Euro-centric models prescribe a single path to capitalist development - that of industrialisation. But, precisely because such industrialisation can today only occur at the 'periphery', under the domination of the MNCs, i.e. what is frequently termed 'dependent industrialisation[88] - the development of manufacturing tends to accentuate rather than mitigate the Balance of Payments crises that accompany high rates of growth.[89] As the world's principal producer of gold and with a mining sector which is domestically owned and controlled, the trajectory of capitalist development in South Africa is likely to follow a significantly different path.[90]

NOTES

1. But even in 1929, a few countries, e.g. Sweden, did not experience major declines in output.

2. OECD: 'Perspectives Economiques', No. 19, July 1976.

3. With the exception of the U.K., which had its lowest industrial production in the fourth quarter of 1974, all the OECD countries had their lowest industrial production within the first three quarters of 1975. Ibid.

4. United Nations: 'Economic Survey of Europe in 1976', New York. Quoted in E. Mandel (1978), 147.

5. For a simple account of the development of the Euro-dollar market see B. Tew (1977), Chapter 13.

6. "National monetary management has been made more difficult mainly because of the increased opportunities (and profitability) opened up by Euro-dollar dealing for arbitrage operations. In this way it has increased the internal constraint on the use of monetary policy as a weapon for internal economic stabilisation ...", S. Strange (1976), 186.

7. R. Murray (1980), e.g. 76-7: in 1973, the German Bundesbank calculated that changes in methods of payment by MNCs had been responsible for a very significant movement in the Balance of Payments.

8. Of course, Central Banks too can, and have been, involved in speculation.

9. See in particular W. Nordhause, 'The Falling Share of Profit', Brookings Papers on Economic Activity No. 1 (1974). For the U.K. see A. Glynn and B. Sutcliffe (1971), and *The Economist*, 6 September 1975. For references to studies *inter alia* on West Germany, Italy and France see E. Mandel (1978), 24-6.

10. See *Business Week* for quarterly tables on the profitability of U.S. corporations.

11. In Marx's analysis the rate of profit is given by the following formula:

$$r = s/c+v.$$

Dividing through by v:

$$r = \frac{s/v}{c/v + 1}$$

i.e., the rate of profit varies proportionately with the rate of exploitation and inversely with the organic composition of capital.

12. The increase in oil prices was not the principal cause of the onset of capitalist crisis in the developed countries. It did contribute to it, but the falling rate of profit, the root cause of the recession, was already evident well before 1973.

    With substantial investments in energy projects which are only viable at a high price for energy, many advanced capitalist countries, and particularly the important 'energy' companies within them, are not likely to welcome a significant fall in oil prices.

13. E. Mandel (1978), 88.

14. e.g. in the U.S. real wages for workers tended to fall.

15. e.g. the W.T. Grant Company in the U.S. or the Kohjin Company in Japan.

16. Also with the banks according credit very liberally to their larger customers: M. Castells (1980), 116.

17. Governmental support for 'lame ducks' results not pre-eminently from 'political factors', but from the fact that their survival is often a *sine qua non* of maintaining an integrated national economy. The loss of British Leyland for example would have manifold effects upon all of British capital, increasing Britain's degree of integration into the world economy.

18. E. Mandel (1978), 94.

19. The power of organised labour is often invoked as a further, if not principal factor, causing inflation. With wage increases lagging well behind price increases for several years now, in many of the advanced capitalist countries, this explanation is hardly adequate. Demands for wage increases are often defensive - a reaction to, rather than a cause of price rises. However, the power of organised labour has acted as a brake on capital's power to reduce the level of real wages and so raise the rate of profit via cost-cutting. Castells puts it this way:

    "Because markets are controlled largely by monopoly capital, corporations are able to impose the prices they want. The increasing cost of living triggers workers' demands for more wages at the level of production. The wages obtained through struggle and bargaining will be added by monopoly capital to the prices charged for commodities. This does not mean that workers' demands are the cause of inflation, as capitalist propaganda argues. What it does mean is that one of the causes of inflation is that corporations find it increasingly difficult to raise their profits through direct exploitation and therefore raise prices for the whole society in order to preserve their privileges". M. Castells (1980), 64.

20. Ibid., 62.

21. Ibid.

22. In the 1974-5 recession, prices of raw materials tended to decline and so moderated inflation.

23. See S. Strange (1976), 186.

24. "The major factor causing the exceptional rise in the gold price has been the world demand for gold as a hedge against economic uncertainty and, in particular, currency weakness, with the price of gold accelerating in terms of all major currencies." Chamber of Mines, Presidential Address, 1979. At the same time, industrial demand for gold has been price-inelastic.

25. See S. Strange (1976), 67.

26. Ibid., 69.

27. Total official dollar balances were \$3b. in 1949, \$10b. in 1960 and \$51b. by 1971.

28. This point was made as early as 1963, by the so-called Fairleigh-Dickinson study, N.S. Fatemi, T. de Saint Phalle and G.M. Keefe, *The Dollar Crisis*, Fairleigh-Dickinson University Press (1963).

29. For an analysis of U.S. monetary policy which clearly examines this as an aspect of U.S. imperialism, see F. Block (1978).

30. Economists associated with this strategy include Kindelberger, Krause and Salant.

31. This absorbtion is not 'complete' since much of the dollars were required to finance the expansion in world trade.

32. There are some signs that this 'monetary hegemony' may eventually be challenged by a European currency, the European Monetary Unit: see Fitt, Fair and Vigier (1980), postscript to Part 2.

33. The distinction between national and international is not clear-cut.

34. Between 1884 when significant gold production in South Africa began until 1932, with the exception of the

years 1919-1924 when gold earned a fluctuating premium, the money price of gold was fixed.

35. One manifestation of this has been the massive rise of loans to the LDCs.

36. Especially in respect of changing interest rates, which affect the opportunity cost of holding gold in the form of interest payments foregone.

37. South African Reserve Bank, *Quarterly Bulletin*, September 1980, 6.

38. For the same period, the U.S. decline was 7,3 per cent, the U.K. 6,4 per cent and West Germany 1,5 per cent: Barclays Bank, *Business Brief*, September 1980.

39. Ibid., 2.

40. Bureau for Economic Policy and Analysis, 'The Gold Price Bonanza', No. 25, March 1980.

41. Chamber of Mines, Annual Report, 1978, 8.

42. Chamber of Mines, Newsletter, Vol. 3, No. 2, 25 March 1980, 4.

43. Chamber of Mines, Newsletter, Vol. 3, No. 6, 22 September 1980, 3.

44. Bureau for Economic Policy and Analysis (BEPA), op. cit.

45. Chamber of Mines, Newsletter, Vol. 3, No. 7, 1.

46. BEPA, op. cit.

47. Chamber of Mines, Newsletter, Vol. 3, No. 7, 5.

48. Chamber of Mines, March Report, 1979, 1.

49. Standard Bank, *Review*, September 1980, 4.

50. BEPA, op. cit.

51. South African Reserve Bank, *Quarterly Bulletin*, September 1980, Table 9.1.

52. "The sustained current account surplus during a period of cyclical upswing did not conform to the historical cyclical pattern, according to which surpluses emerge during the advanced stages of cyclical downturns and disappear relatively early during the subsequent upswings ... The progressively larger surpluses up to the first quarter of 1980 were predominantly the result

of an exceptionally strong rise in the price of gold..." South African Reserve Bank, Annual Economic Report, 1980, 19.

53. "When gold is excluded, the balance on current account has deteriorated significantly since early 1979." Standard Bank, *Review*, September 1980, 2.

54. Chamber of Mines, Newsletter, Vol. 3, No. 2, 4.

55. Ibid., Vol. 3, No. 6, 3.

56. South African Reserve Bank, *Quarterly Bulletin*, September 1980, Table 5.32.

57. Chamber of Mines, Newsletter, Vol. 3, No. 7, 1.

58. Ibid.

59. For which the decisive precondition was the defeat of the working classes in the post-War period.

60. Standard Bank, *Review*, September 1980, 4.

61. Statistics, September 1980, 141. Figures derived from SEIFSA: Survey of New Capital Investment in the Metal and Engineering Industries in 1979 and Projections for 1980.

62. The Chamber now estimates that gold production will be steady at approximately 700 tons per annum until 1987. It will then decline to 350 tons by the end of the century. But this is based on gold prices which are fairly conservative. Chamber of Mines, Newsletter, Vol. 3, No. 1, 1980, 2.

63. Reynders Commission (RC), 15.

64. "... even a maximum exploitation of South Africa's mineral wealth will not adequately provide in (*sic*!) the foreign exchange needs of the country, so that the export of manufactured goods will have to be increased as rapidly as possible." RC, 19.

65. S. Clarke, "Capital, Fractions of Capital and the State: 'Neo-Marxist Analysis of the South African State'", *Capital and Class* (Summer 1978), 69.

66. e.g., see RC, 246.

67. SC, 70.

68. Ibid.

69. Ibid., 71.

70. Further points could be made about Clarke's political conclusions and a reductionism in respect of the class struggle.

71. RC, 173.

72. Ibid.

73.

74. e.g., see R. Davies, D. Kaplan, D. O'Meara and M. Morris, 'Class Struggle and the Periodisation of the State in South Africa', *Review of African Political Economy*, No. 7, 1977.

75. Absence of this distinction, I believe, leads Clarke to ultimately ignore imperialism altogether - both historically and in the contemporary period.

76. RC, 232.

77. RC, 219.

78. RC, 610.

79. RC, 611.

80. RC, 609, i.e. it affects not only the propensity to export, but also raises their propensity to import.

81. R. Murray (1980), Chapter 2.

82. Ibid.: a related party is one in which a firm has anything above a five per cent shareholding.

83. Thus, the 'foreign connection' is just as vital in the explanation of the high import propensity of the manufacturing sector (something that Clarke, and to a lesser extent the Reynders Commission, simply accept as intrinsic) as an explanation of its low export propensity.

84. Particularly with the rise of Anglo-American to dominance.

85. For reference to low import propensity see Note 47.

86. e.g. see Chamber of Mines, Annual Report, 1979, 13.

87. see RC, Chapter 14.

88. e.g. N. Poulantzas,

89. As has most clearly happened in the case of Brazil.

90. But 'development' should be understood not as development for all, but as *capitalist* development. For example, even with the current upswing, employment is growing at less than half of the rate of population increase. Sanlam Economic Survey - quoted in the *Financial Mail*, 31 October 1980.