
Financialised accumulation and the political economy of state capture

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Unlike most other assessments of state capture which report on the shocking revelations coming out of the Zondo Commission of Inquiry, this article instead considers the political economy of South African corruption. The author reminds us that South African

corruption is not new, but a product of highly exploitative colonial and later apartheid-era accumulation. Ashman attempts to explain why corruption is endemic in post-apartheid South Africa and concludes that it emerged out of changes in the leadership of the liberation movement who sought the creation of a black elite or black capitalism.

The Zondo Commission of Inquiry has been in progress for just over a year and it has revealed the depth of corrupt practices within South Africa today. Shocking revelation has come on top of shocking revelation, providing hard evidence for things that many had already suspected. Bosasa's Angelo Agrizzi and other whistleblowers from that company, for example, described

in detail the huge scale of the bribes they made to ANC figures to secure contracts, influence and to avoid prosecution. The payments ranged from the cynical and 'efficient' regular monthly bribes (all the better to keep people dependent and therefore loyal) to the grotesque (Louis Vuitton handbags full of cash). Were it not so serious, one might suggest that former president Jacob Zuma spread mirth across the land with his faux anti-imperialism at the commission in July 2019, where he claimed that he was the victim of a plot by foreign intelligence agencies determined to bring about his downfall. "The rambling of a troubled mind," wrote former SARS official Yolisa Pikie.¹

The rot, of course, is deeper than Zuma and Bosasa. And it's not only the revelations of the Zondo Commission which are stark: there's the inquiry into the Public Investment Corporation (PIC), the VBS bank scandal and more. Kenneth Brown, the former National Treasury chief procurement officer who resigned in 2017, claimed that as much as 40%

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of the government’s \$44 billion/R600 billion state procurement budget in 2016 was actually fraudulent.² “It means without adding a cent, the government can increase its output by 30 to 40 percent.”³ The Civil Society Working Group on State Capture reminds us that the social cost of corruption for the poor is enormous, given corruption’s negative impact on transformation and the realisation of access to health, basic education and other services.

Rather than examine the testimonies made at the commission in detail, this article instead asks how best do we explain the deep levels of corruption within government and business and between government and business in South Africa today? What is the political economy of South African corruption?

First, the obvious: corruption is neither new nor specific to South Africa. In general terms, corruption is

widespread, and private capital both commits to it and lives with it. ‘Crony capitalism’ as a term was first used in relation to East Asia. India has gone through repeated crises of corruption, most recently ‘coalgate’. A 1995 report in the British *Guardian* newspaper referred to how, “Nigeria is a state being looted to death.”⁴ Historical and contemporary examples are numerous. Put most simply, corrupt relations with government reduce the risks private capital has to take, and the weaker capital is, the more dependent it is upon the state.

In the South African context, it is particularly important to emphasise that corruption is not new. Historically, ‘white capital’ has grown through highly exploitative colonial and then apartheid-era accumulation regimes which have actively blocked more broad-based and inclusive social and economic development. Much of this, but not all, was perfectly legal, but then the conquerors wrote the laws. Van Vuuren has documented two decades of extensive apartheid-era corruption, in which the major banks played a pivotal role, aimed at countering the international sanctions against the apartheid regime.⁵ Today capital takes much wealth out of the country – by legal and illegal means. The Competition Commission has found major South African and international banks guilty of deliberately manipulating the value of the Rand. Companies have benefited from the overpricing of outsourced government goods. Corporate tax is low and there are many ways it can be dodged, with the right auditors. White capital was prepared to tolerate the extremes of the Zuma administration for long enough, only entering the fray with the sacking of finance ministers Nhlanhla Nene and Pravin Gordhan. As Steven Friedman has argued, “In reality, market economies can co-exist with all manner of favouritism, patronage and even dodgy dealing”.⁶

Moreover, over the course of 2017, the largest financial collapse in South African history unfolded as the Steinhoff group crumbled, almost overnight.⁷ Losses of more than R100 billion were made over two days. Subsequent investigations discovered massive earnings manipulations, off balance companies set up to hide losses, acquisition sprees, debt overload, offshoring of profits and tax fraud. Christo Wiese of Shoprite, and former chair of the Steinhoff group, remains one of the richest people in Africa. Steinhoff demonstrated further how financial liberalisation has facilitated the growth of illicit financial flows, transfer pricing, trade misinvoicing and what the OECD calls base erosion profit shifting (BEPS). This is much more systematic than simply offshore tax havens for rich individuals, but so widespread as to be corporate strategy in many sectors.

But why has corruption become so endemic in post-apartheid South Africa? In South Africa’s case, access to the state, often through corrupt means, has become key to new black class/elite formation. As already noted, where capital is weak, it is frequently more dependent upon the state, and the weakness of other opportunities makes new black capital more desperate. This weakness is a consequence of the post-1994 strategies of big capital and the ANC. The ANC’s concessions to colonial/apartheid-era capital (no nationalisation, permission for offshoring and relisting, loosening of capital controls to allow for this) were combined with concessions from capital on BEE (and the selling off of their least profitable assets in the process). This fitted with the narrowing horizons of the leadership of the liberation movement who sought the creation of a black elite or black capitalism. The meetings between the ANC, big business and the apartheid elite from the mid-1980s onwards were important to the ANC’s acceptance of a mainstream ►►

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economic policy package effectively as a condition for a negotiated settlement and one person, one vote. But now these policies render the ANC’s own task – creating black capitalism – very difficult. The concessions to white capital given above, a continuing mainstream macroeconomic policy framework, trade and financial liberalisation, growing financialisation in general, have limited the ANC’s ability even to help create new black capital.

Instead, the economy remains highly concentrated and dominated by powerful incumbents. The core MEC sectors and finance have been joined by retail, telecom and media. Labour-intensive manufacturing is deindustrialising, hit by trade liberalisation, whilst the growth of the financial sector has created few jobs and failed miserably to allocate capital at high enough levels nor towards labour-intensive sectors. The informal economy is weak (relative to other developing economies) as a consequence of apartheid-era policies. The resulting near permanent exclusion of 40% of the population from work inevitably means a continuing crisis of demand. The state offers not only direct employment but also contracts/tenders/licences.



Political connections and/or corruption thus become very important means for new entrants and for class formation.⁸ The financialisation of accumulation is a critical feature of the context: the specific conjuncture of forces which give rise to corruption in present day South Africa.

THE CONDITIONS OF ACCUMULATION AND CORRUPTION

There have been earlier analyses rooting the political economy of corruption in the conditions of accumulation, and in particular how the African petty bourgeoisie in many societies has been dependent, in the era of independence, upon access to the state and its resources as a consequence of colonial underdevelopment.⁹ Morris Szeftel writes that:

In the context of underdevelopment, local accumulation rests heavily on political office and the ability it provides to appropriate public resources. Corruption provides a means of transferring public resources to the new middle class and bourgeois

strata which emerged in the post-colonial order. And debt, economic crisis and underdevelopment ensure that this dependence on access to the state remains continuous.

The conjunction of forces which give rise to corruption and which shape its forms are, however, quite specific. The South African case, it is argued here, needs to be situated in a bigger picture: the economic and political contradictions of neoliberalism and financialisation.

The financialisation of production, exchange and reproduction lies at the core of neoliberalism and the neoliberal project. It has meant the extensive and the intensive development presence of financial interests and trading of assets in all these three spheres.¹⁰ Indeed, financialisation underpins neoliberalism as states drive the internationalisation of production and finance, even if at the same time preaching the virtues of laissez-faire.

Economic policymaking, globally, has come to reflect these priorities. One measure of these processes is the way in which financial institutions have been able to appropriate a greater share of the

value created in all the major neoliberal economies, and the greater share taken by finance across the global economy has increased incomes at the top and so contributes to rising inequality. The dominance of finance creates a tendency to short-termism and speculation over long-term productive investment and job creation, with growth often being led by speculative bubbles. This has been devastating in the context of the structure of the South African economy. As such, neoliberalism and the connected financialisation of the world economy has failed to produce growth (expect for a highly limited measure), and this failure and the frustration which results is now increasingly accompanied by either political polarisation, crises for democracy and/or shifts to more authoritarian forms of rule in a number of states and the strengthening of the coercive apparatus of the state to prop up turbulent and unequal societies.¹¹

Neoliberalism can be seen in terms of three paradoxes: the economic paradox of neoliberalism being the inability to capitalise on the favourable conditions for accumulation; the political paradox of neoliberalism being the crises of a number of liberal democracies as legitimacy is eroded and a backlash emerges with 'spectacular leaders' pushing politics further to the right; and the paradox of 'authoritarian neoliberalism' being that these 'spectacular leaders' further pursue neoliberalism and financialisation with adverse consequences for their supporters.¹²

Of direct relevance to South Africa is the way that 'the economic paradox of neoliberalism' has contributed to the formation of informal networks of corruption and patronage. In the face of few opportunities for accumulation (given the restructuring of the MEC, its internationalisation and financialisation, and the concentrated if shifting nature of the South African economy as a consequence of the MEC),

contacts with government to aid in the winning of tenders has become a critical site of economic activity. A general feature of these failures across the globe is the way that new forms of revolving doors between the public and the private sectors have opened up, and the increasingly large and lucrative role for private auditors, consultants, PR firms and other enablers.¹³

The timing of the transition to black majority rule meant that political democracy arrived in South Africa under conditions of established neoliberalism and financialisation elsewhere. As the ANC stood for election, it had made it clear to business and the old white elite that private property would be respected and that colonial and apartheid-era capital would have considerable freedom of movement, as we noted above.¹⁴ Economic policy implemented under both Mandela and later Mbeki were characterised by an adoption of so-called Washington Consensus policies, meaning a buy-in into the World Bank's and IMF's preaching of fiscal restraint and inflation containment. The Growth, Employment and Redistribution (GEAR) macroeconomic strategy represented this buy-in into orthodox economic thinking. GEAR stressed the need for fiscal consolidation, financial and trade liberalisation, wage moderation and labour market deregulation as well as monetary policy tackling inflation. A sequence of corresponding mainstream policy packages has reproduced some of the extremes of apartheid-era political economy. What has determined the political economy trajectory since 1994 has been financialisation (in and of itself and of globalised production) and the emergence of a new black elite thoroughly integrated into neoliberalism, globalisation and financialisation.

STATE STRUCTURES AND CLASS FORMATION

In the context of weak accumulation in the post-apartheid period, corruption

has proved to be an attractive option for sections of capital and rival sections of the ANC with access to national and/or provincial state structures. Such corruption in South Africa is not simply confined to the Zuma period and his networks of support and beneficiaries. Corruption both predates Zuma in important ways, and is broader than the coterie around Zuma and the Guptas. Not only did the first national scandal occur on Mbeki's watch – the arms deal, which implicated Zuma and proved to be a taste of things to come – the Mbeki era made important economic policy choices as discussed above. In addition to this, the Mbeki era is important in terms of the centralisation of power and decision-making within the ANC, and its institutionalisation within parts of the state, particularly the Treasury and the Presidency.

Decision-making could not be inclusive of the democratic movement as the commitments and goals of the ANC leadership moved radically away from the goals of much of the movement. As part of this acceptance, as argued above, the vision of the leadership of the ANC narrowed to the pursuit of BEE as a means of historical redress and for the creation of black capital, and the slow 'de-racialisation' and democratisation of apartheid institutions, rather than their transformation. BEE has involved the transfer of assets from existing multinational corporations (MNCs) to new black groups and individuals, often highly indebted and unproductive, minority stakeholders in existing companies that allow those companies to fulfil BEE quotas, with share transfers often financed through debt (in the first instantiation of the policy at least). A small minority has done very well, including Cyril Ramaphosa (who has extensive interests in coal and platinum mining, banking, and coke and McDonald's franchises), and forms a buffer against white capital, many of whom can present their ➤

political connections/access as an asset. Others have fared less well, and been dependent upon far more modest contacts and networks.

At a national level there have been intense struggles over control of the institutions which may or may not prosecute those deemed to have transgressed the law – the police, the NPA, intelligence agencies, SARS – a struggle to subordinate these institutions to factional accumulation strategies. The Zuma faction also established a network of party leaders within the ANC and in senior leadership positions who were loyal to Zuma – the so-called ‘Premier League’. These practices, including their violent aspects, have become an integral part of black class formation and this contributes to the ongoing instability within the ANC. Authoritarianism is carefully blended with the gains to be made from patronage, the carrot and the stick.

The role of the provinces is important too in the state capture story. The provinces post-1994 were expected to deliver on a broad range of services but without resources and with highly divergent capacities to deliver. At a provincial level, webs of connections have developed between local state officials, ANC structures, entrepreneurs and small-time business people, as told by Olver with regard to Nelson Mandela Bay.¹⁵ Tenders have become so central because competition is intense (as there are few opportunities elsewhere, as argued above). Hence ‘knowing someone on the inside’ can be key (indeed make or break) – to being selected as the chair of provincial committees, for example. And as being chair of a committee becomes important (and possibly lucrative), often factional competition for these positions intensifies. The ANC provinces have seen intense conflicts over control of the structures, with assassinations of rivals reflecting the power and patronage these positions confer, with money to the favoured local business people frequently being channelled back into

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the ANC, keeping the connections going.

The role of the provinces is connected to a further important feature of South African democracy – violence. Von Holdt argues that the critical importance of access to the state for accumulation opportunities is important to understanding the violent nature of South African democracy since 1994, and that violence has become integral to processes of class formation and class relations in South Africa.¹⁶ Much, though not all, of this violence is rooted in competition between different clientelist factions of the ANC, or the party-state.¹⁷ For Von Holdt, South Africa is marred by multiple forms of violence, including the violence of the ‘subaltern’ – as seen in xenophobic attacks, vigilantism, gender-based violence and union and labour violence. Intra-elite competition has become increasingly violent, as seen in struggles for control over the coercive instruments of the state and the use of assassinations in rivalry for ANC positions; and the mobilisation of ‘collective violence’ in ANC structures and/or community protests (where ANC factions mobilise communities in order to boost their

position within factional battles).

In sum, there are a number of key points.

Firstly, the Mbeki era laid the foundations for the Zuma era in its accommodation with big capital and finance, its centralisation of decision-making, its tolerance for naked corruption in the arms deal, its pursuit of BEE (while at the same time introducing other politics which render it impossible except for a small minority) and its rendering of the provinces weak.

Secondly, corruption around the state ranges from large to small, national and provincial. Borhat et al trace the emergence and evolution of national level corruption and state capture, involving the boards of parastatals such as Transnet and Eskom, as far back as 2012.¹⁸ The Report by the then Public Protector of South Africa, Thuli Madonsela, investigated complaints of unethical conduct by Zuma and others in relation to the appointment of cabinet ministers and the directors of state-owned enterprises’ appointments.¹⁹ This was followed by investigations by journalists, such as amaBhungane, along with the report by academics at a number of South African universities, and Pauw, Myburgh and others.²⁰ Together these sources demonstrate corruption with regard to state contracts, notably Eskom, Transnet and the putative nuclear deal with Russia.

Thirdly, other institutions have been in crisis/intense power battles over who controls them and whether or not they are subordinate to factional accumulation agendas.

Fourthly, the term ‘corruption’ needs unpacking further as there are different processes at work – from bribes, to access, to contracts for accumulation, to informality in processes. Schools, for example, particularly in rural areas, are important sources of procurement, of employment and of influence and therefore being on a school governing body provides a variety of advantages.²¹

Fifthly, finance is deeply imbricated in this story. Large-scale national corruption is facilitated by the financial sector. Much of this is yet to be uncovered. Bhorat et al point to the Guptas' use of offshore brokers to manage, boost and hide their financial resources.²² Others have pointed to the Guptas' accounts with the Bank of Baroda and HSBC, and their involvement in diamond trading as a means of moving money.²³ As well as the banks, 'enablers' like the big four auditing firms (particularly KPMG) and Bell Pottinger, the former 'reputation management' multinational, have also come under scrutiny as the state capture revelations have unfolded. Bell Pottinger closed down after the extent of its involvement in South African politics on behalf of the Guptas became public in their strategy of portraying the Guptas as putative victims of white monopoly capital.

CONCLUSIONS

Corruption is now so widespread it has become integrated into the system of accumulation, with finance at its core – stifling industrial development and job creation yet aiding and abetting the processes outlined above. Big national corruption is greased by the financial sector and the growth of finance, and financial liberalisation helps this corruption. Smaller-scale, more localised corruption is necessitated as a means of accumulation because of the existence of a financialised economy which does not provide other avenues for small-scale accumulation or employment as a backstop. The neoliberal policy framework and its structures of institutional power have facilitated state capture. Neoliberalism is profoundly anti-democratic and, in general terms and in South Africa, this policy regime has facilitated a concentration of policy-making power within certain institutions within the state – the Treasury, the Presidency, and

the South African Reserve Bank. Indeed the concentration of power under Mbeki facilitated the Zuma era.

The corruption-riddled era is far from over. It is extremely difficult for Ramaphosa to tackle the scale of the corruption now in existence. Whilst popular with 'the markets', he remains relatively weak inside a divided ANC, where four of the top six ANC officials remain Zuma loyalists. Ramaphosa will want a public success story so he can claim he has delivered, but many of the processes discussed in this article are likely to continue, even if in modified form.

South Africa needs genuine radical economic transformation more than ever, and it needs voices, and forces, which stand for it. For the time being, the old elite continues as before (internationalisation and financialisation notwithstanding), and significant sections of the new elite simply seem intent upon proving Fanon right: A "national capitalist class" is fulfilling its "innermost vocation" which is "to stay in the running and to be part of the racket".²⁴

ENDNOTES

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