1. Introduction

In 2010, South Africa officially became the most unequal country in the world with a gini coefficient that has risen since the era of democracy and so called majority rule. Persistent high levels of inequality have been understood as the legacy of both colonial rule and apartheid where the distribution of wealth and land have been highly skewed along racial lines. Studies of the dynamics of inequality in South Africa have suggested that rising inequality has occurred within racial groups whilst decreasing on average between races. It is, however, incorrect to interpret this finding as evidence for the diminishing role of race as a determining factor of economic outcomes in South Africa. Rather, a more systemic understanding can be gleaned from an analysis of the shifting relationship between race and class as they manifest through patterns of employment and unemployment premised upon the prevailing economic structure of the economy that has its roots in industrial development under apartheid and then reinforced with economic liberalisation and financialisation of the South African economy. Whilst persistent high levels of unemployment and wage inequality have been recognised as a major determining factor for income inequality, interpretation and policy recommendations have often focused upon labour market issues and workers’ skills. Relatively less attention has been paid on the sectoral structure of the South African economy as underpinning persistent and structural unemployment. Notable exceptions have been studies that have deployed the analytical concept of the minerals-energy-complex (MEC) as the historical, evolving and prevailing system of accumulation in South Africa.

The proposed report builds upon, updates, and extends recent research with the aim of demonstrating how the MEC continues to underpin and shape South Africa’s economic structure, patterns and dynamics of inequality across racial and gender lines.

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The report will:

1. briefly outline the analytical concept of the MEC and demonstrate its empirical significance in the evolving structure of the South African economy and briefly discuss how the MEC persists into the democratic era as it is reshaped through neoliberal economic policies and the financialisation of the South African economy resulting in the maintenance of the core structure of power and de-industrialisation;

2. demonstrate that the financialised MEC remains a core configuration and determinant of the sectoral and geographic patterns of contemporary South African system of accumulation and identify different mechanisms via which this translates to worsening income and wealth inequality;

3. demonstrate how this pattern of accumulation reproduces economic, gender and racial inequality by investigating (subject to data availability):
   
   3.1 how this pattern of accumulation and consequent industrial structure reproduces racialized patterns of inequality through low investment, low labour absorption/structural unemployment, financialisation and unequal asset ownership and access to finance and financial incomes;
   
   3.2 how this pattern of accumulation reproduces gender inequality as relatively secure and well paid employment in MEC and financial sectors tend to be male dominated. Women have historically been underemployed in the MEC core and absorbed precariously into low paid, “low-skilled”, feminised labour activities in the service sector; and,

4. suggest recommendations towards an economic structure that is conducive to the promotion of employment and equality.

2. The MEC and South Africa’s economic growth path

*Figure 1. GDP and GDP growth rates 1960 - 2017*
The size of the South African economy, according to the measure of GDP, has been expanding overtime (figure 1). GDP growth rates followed an overall positive trajectory until the recession of 2009. In spite of positive growth rates, the unemployment rate increased in the first decade following democratic transition. Whilst some characterised this period as one of jobless growth⁴, there was an increase in the overall numbers employed (figure 2), however the rate of expansion of employment opportunities lagged the expansion of the workforce. Unemployment rates began to fall slightly between 2004 and 2007 but these gains were eroded as close to one million jobs were lost between 2008 and 2010. Since 2010, low positive growth rates have been accompanied by persistently high and even worsening unemployment reaching 37% in the fourth quarter of 2018, according to the expanded definition of unemployment that includes discouraged workers (figure 3).

What these aggregate trends mask is the extent of structural change that has occurred in the South African economy since 1994, namely rapid deindustrialisation in manufacturing sectors unconnected to extractive industries and the ascendance of financial services as the main driver for GDP growth whilst employment and job creation has been concentrated in trade, catering and accommodation, and community, social and personal services as the main employers and sites for job creation. Whilst this restructuring was the result of economic policies pursued by the government from 1994 which supported the reintegration of South African capital into the global economy, the specific pattern of sectoral change was conditioned upon a highly skewed industrial structure that South African’s inherited from the apartheid era. Before turning to a discussion of economic restructuring since 1994 in section 2.2, we will first introduce the nature and origins of South Africa’s industrial structure.

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⁵ Data source: Quantec 2019
2.1. Origins of a skewed industrial structure

Manufacturing value added in 1993 was 21% of GDP (figure 4). Comparing this figure with 29% for China in 2017, 20.7% in Europe’s industrial heart, Germany, and just 9.2% in UK suggests that the incoming ANC government inherited a highly industrialised economy in 1994. Table 1 shows that, not only was the South African economy relatively industrialised, the sectoral pattern was skewed towards capital intensive industries within, and connected to, extractive and energy sectors. Petroleum products, chemicals, rubber and plastic, and metals, metal products, machinery and equipment, accounted for 38% of total output in manufacturing in 1993. High capital intensity of industry has meant that the economy has limited labour absorption capacity. Moreover, sector invariant GDP growth would imply a low employment elasticity of growth and employment generation that lags behind growth, as has been the case in South Africa since 1994.

The skewed, low labour absorbing, industrial structure has its origins in the political economy of industrial development under apartheid. Industrial policy in the 1950s and 1960s worked to intensify the capital content of manufacturing with the share of heavy industry in total manufacturing output rising from 48.4% in 1948 to around 60% in 1975 (Table 1).

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6 Data source: Quarterly Labour Force Survey 2019
Table 1. Share of sectoral net value of output in total manufacturing 1924-2010.\(^7\)

<table>
<thead>
<tr>
<th></th>
<th>1924</th>
<th>1948</th>
<th>1975</th>
<th>1975*</th>
<th>1990*</th>
<th>2000*</th>
<th>2010*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total light industry</td>
<td>63.2</td>
<td>51.7</td>
<td>38.7</td>
<td>38.4</td>
<td>43.3</td>
<td>36.1</td>
<td>33.8</td>
</tr>
<tr>
<td>Chemicals and chemical products</td>
<td>12.1</td>
<td>9.5</td>
<td>11.4</td>
<td>11.5</td>
<td>16.8</td>
<td>23.9</td>
<td>23.9</td>
</tr>
<tr>
<td>Pottery, glass, other non-metallic minerals</td>
<td>7</td>
<td>6</td>
<td>5.3</td>
<td>4.7</td>
<td>4.0</td>
<td>2.5</td>
<td>2.7</td>
</tr>
<tr>
<td>Basic metals industries</td>
<td>8.9</td>
<td>17.6</td>
<td>13</td>
<td>8.5</td>
<td>8.6</td>
<td>9.8</td>
<td>11.7</td>
</tr>
<tr>
<td>Metal products and machinery</td>
<td>3.3</td>
<td>5</td>
<td>22.7</td>
<td>18.1</td>
<td>12.4</td>
<td>9.4</td>
<td>8.9</td>
</tr>
<tr>
<td>Transport equipment</td>
<td>5.3</td>
<td>7.8</td>
<td>7.2</td>
<td>13.0</td>
<td>9.6</td>
<td>12.9</td>
<td>13.9</td>
</tr>
<tr>
<td>Rubber products</td>
<td>0.2</td>
<td>2.4</td>
<td>1.7</td>
<td>0.9</td>
<td>1.2</td>
<td>1.1</td>
<td>0.9</td>
</tr>
<tr>
<td>Total heavy industry</td>
<td>36.8</td>
<td>48.4</td>
<td>61.3</td>
<td>56.8</td>
<td>52.6</td>
<td>59.7</td>
<td>61.9</td>
</tr>
</tbody>
</table>

---

Figure 4 Sectoral distribution of gross value added, 1993

- Agriculture, forestry and fishing: 4%
- Mining and quarrying: 8%
- Manufacturing: 21%
- Electricity, gas and water: 3%
- Construction: 3%
- Wholesale and retail trade, catering and accommodation: 15%
- Financial intermediation, insurance, real estate and business services: 15%
- Transport, storage and communication: 9%
- General government services - Other: 5%
- Community, social and personal services: 17%

Data source: Quantec 2019

Figure 5 Sectoral distribution of gross value added, 2017

- Agriculture, forestry and fishing: 8%
- Mining and quarrying: 14%
- Manufacturing: 4%
- Electricity, gas and water: 4%
- Construction: 15%
- Wholesale and retail trade, catering and accommodation: 10%
- Financial intermediation, insurance, real estate and business services: 18%
- Transport, storage and communication: 21%
- General government services: 6%

Data source: Quantec 2019
Figure 6 Distribution of total output across manufacturing sectors, 1993

- Food, beverages and tobacco [QSIC 301-306]
- Textiles, clothing and leather [QSIC 311-317]
- Wood and paper; publishing and printing [QSIC 321-326]
- Petroleum products, chemicals, rubber and plastic [QSIC 331-338]
- Other non-metallic mineral products [QSIC 341-342]
- Metals, metal products, machinery and equipment [QSIC 351-359]
- Electrical machinery and apparatus [QSIC 361-366]
- Radio, TV, instruments, watches and clocks [QSIC 371-376]
- Transport equipment [QSIC 381-387]
- Furniture and other manufacturing [QSIC 391-395]

Data source: Quantec 2019
Figure 7 Sectoral composition of employment, 1993\textsuperscript{11}

- Agriculture, forestry and fishing [QSIC 1] 14.3%
- Mining and quarrying [QSIC 2] 5.6%
- Manufacturing [QSIC 3] 14.8%
- Electricity, gas and water [QSIC 4] 0.5%
- Construction [QSIC 5] 4.9%
- Wholesale and retail trade, catering and accommodation [QSIC 6] 17.0%
- Transport, storage and communication [QSIC 7] 3.2%
- Finance, insurance, real estate and business services [QSIC 8] 11.5%
- General government [QSIC 9] 11.7%
- Community, social and personal services [QSIC 92-96, 99] 16.5%

Figure 8 Sectoral composition of employment, 2017\textsuperscript{12}

- Agriculture, forestry and fishing [QSIC 1] 7.3%
- Mining and quarrying [QSIC 2] 3.2%
- Manufacturing [QSIC 3] 9.4%
- Electricity, gas and water [QSIC 4] 0.5%
- Construction [QSIC 5] 6.0%
- Wholesale and retail trade, catering and accommodation [QSIC 6] 22.4%
- Transport, storage and communication [QSIC 7] 4.5%
- Finance, insurance, real estate and business services [QSIC 8] 17.0%
- General government [QSIC 9] 12.1%
- Community, social and personal services [QSIC 92-96, 99] 17.6%

\textsuperscript{11} Data source: Quantec 2019

\textsuperscript{12} Data source: Quantec 2019
The minerals-energy-complex (MEC) which was put forward by Fine and Rustomjee\textsuperscript{13} as an analytical description of historical industrial development in South Africa. The MEC describes the historically derived dynamic of capitalist accumulation peculiar to South Africa’s political economy. It is an analysis of industrial development simultaneously focussing on different dimensions of interdependencies between fractions of capital, industrial sectors and the state that involves:

i) Economic and political analysis (including the state) through the emphasis on evolving class relations and conflicts and how these are reflected in patterns of accumulation and economic and social reproduction.

ii) Empirical identification based upon material interdependencies/linkages (input-output) between sectors that reveal a coherent, cohesive set of industrial sectors with very strong linkages with each other and relatively weaker linkages with sectors outside of the MEC core.

By employing the second dimension of the MEC analysis, we can identify a set of sectors that constitute the MEC-core that are made up of mining and related industries (Table 7). In 2010, 70% of productive inputs into the MEC sectors come from the MEC core itself and 56% of intermediate output from MEC sectors goes back into the MEC core as inputs. By contrast, only 25% of intermediate inputs into non-MEC manufacturing sectors come from the MEC and only 10% of intermediate output from non-MEC sectors enters into MEC sectors as inputs. It is worth noting that the coherence and cohesion of the MEC has persisted throughout the four decades since 1970. The strength of direct forward and backward linkages between MEC-subsectors has remained remarkably stable since 1970. This cohesion and coherence has resulted, not only in determining the dynamics of its own expansion and development through dynamic increasing returns to scale that come about through the growth pull effects on linked sectors, but also in conditioning the nature of industrial development outside of the MEC. Because of its lack of integration with economic activities more broadly\textsuperscript{14}, expansion of the MEC-core has occurred in relative isolation from, and at the expense of, non-MEC sectors, in particular labour intensive manufacturing of consumer goods. A major corollary of this has been an industrial structure skewed in favour of capital intensive, heavy, industries with limited labour absorption that have made up between 50 and 62 per cent of total manufacturing output since the 1970s.\textsuperscript{15}


\textsuperscript{14} Except through common ownership within the conglomerate structure that prevailed over the economy until the transition from apartheid.

Industrial policy in the apartheid period was shaped by class interests that were marked by a disjuncture between political and economic power that prevailed in 1948 with the election of the Nationalist Government. Economic power was concentrated in the hands of English mining and finance capital on the one hand and political power was in the hands of Afrikaner interests in control of the state. Industrial policy provided the means to erode this disjuncture through the promotion of Afrikaner economic interests, in core capitalist sectors of the economy in mining and finance, with the success of this being dependent upon harnessing English capital in mining and finance. In turn, English capital was dependent upon the state. In addition to the promotion of finance to facilitate the concentration of capital in Afrikaner mining and other economic interests, industrial policy included the establishment of state owned mega projects critically dependent on mining inputs and as inputs into mining (energy) from which the likes of Eskom and SASOL have been built. In addition, there was heavy protection of consumer durables serving a small section of society as well as support for small-scale support of labour intensive activities to ensure full employment for the white population. The outcome of this industrial strategy was a heavily skewed industrial structure with highly concentrated

<table>
<thead>
<tr>
<th>MEC subsector</th>
<th>Share of inputs from MEC sectors (% of total)</th>
<th>Share of output to MEC sectors (% of total)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coal mining</td>
<td>26</td>
<td>90</td>
</tr>
<tr>
<td>Gold and uranium ore mining</td>
<td>55</td>
<td>5</td>
</tr>
<tr>
<td>Other mining*</td>
<td>23</td>
<td>77</td>
</tr>
<tr>
<td>Coke and refined petroleum products</td>
<td>88</td>
<td>18</td>
</tr>
<tr>
<td>Basic chemicals</td>
<td>77</td>
<td>60</td>
</tr>
<tr>
<td>Other chemicals and man-made fibres</td>
<td>67</td>
<td>37</td>
</tr>
<tr>
<td>Plastic products</td>
<td>68</td>
<td>30</td>
</tr>
<tr>
<td>Non-metallic minerals</td>
<td>73</td>
<td>8</td>
</tr>
<tr>
<td>Basic iron and steel</td>
<td>82</td>
<td>59</td>
</tr>
<tr>
<td>Basic non-ferrous metals</td>
<td>91</td>
<td>59</td>
</tr>
<tr>
<td>Metal products excluding machinery</td>
<td>70</td>
<td>41</td>
</tr>
<tr>
<td>Machinery and equipment</td>
<td>63</td>
<td>53</td>
</tr>
<tr>
<td>Electricity gas and steam</td>
<td>53</td>
<td>47</td>
</tr>
<tr>
<td><em>Non-MEC manufacturing</em></td>
<td><strong>23</strong></td>
<td><strong>6</strong></td>
</tr>
</tbody>
</table>

16 Authors calculations; Data source: Quantec Input-Output tables 2011
ownership in the form of six diversified conglomerates that collectively owned 83% of market capitalisation in 1988.¹⁷

2.2. Economic restructuring since 1994

Economic restructuring since 1994 has been shaped by the interests of South African Capital. The crisis period of the 1980s saw capital trapped within the national economy because of international sanctions and capital controls and reluctant to invest in fixed assets. Democratic transition thus provided the prospects for corporate unbundling and restructuring characteristic of the shareholder value movement and a shift from an ‘old economy’ to a ‘new economy’ business. The latter being associated with disillusionment with conglomerates, and the move towards downsizing together with a shift from corporate financial allocation guided by the principle of ‘retain-and-reinvest’ to one guided by shareholder value and remunerations of corporate executives that characterizes industrial and corporate change in the US and Europe since the 1980s.¹⁸ South African capital was eager to internationalise via offshore relisting, both to make the most of new opportunities for profit offered by an increasingly globalized and financialised economy, as well as the expatriation of capital and profits.

Economic policies in the 1990s were shaped by the interests of the conglomerates¹⁹ and amounted to the promotion of neoliberalism in rhetoric and the privileging of macroeconomic policy over other forms of government intervention whilst supporting capital intensive sectors connected to mining on the other hand. Growth of the conglomerates were supported through Industrial Development Corporation (IDC) financing and tax breaks that facilitated the expansion of resource processing during the period of transition which in turn was supportive of internationalization by the conglomerates post-1994.²⁰

In 1996, the South African government adopted GEAR with its neoliberal macroeconomic framework that reflected the interests of conglomerate capital. Intellectual justification for GEAR was premised upon a particular analysis of the crisis of South African industry as a case of failed import substitution and market distortion, over regulated labour markets in particular, that could be remedied only with far reaching liberalization and deregulation. Policies under GEAR involved the control of inflation, fiscal discipline and reducing the government deficit, comprehensive trade and capital liberalization, macro prudential regulation and high interest rates that supported the internationalization and financialisation of formally trapped South African capital (Ashman et al. 2011, Alami 2018). Politically, the tension between the interests of the conglomerates and the black majority, was resolved through the promotion and cooption of a black elite through the policy of Black Economic Empowerment (BEE) that was initiated by the conglomerates. The first decade of democracy saw industrial policy take a back seat. Industrial policy was largely limited to supply side measures related to imperatives for raising competitiveness as domestic sectors faced a new liberalized trade environment brought about


¹⁹ These interests were most clearly articulated in the manifesto of the South Africa Foundation entitled “Growth for All” that served as the basis for the neoliberal macroeconomic framework adopted in 1996.

in 1995 when South Africa joined the WTO with none of the concessions available to developing countries. The only sector that received policy attention backed with real programmes for investment was the Automotives sector via the Motor Industry Development Program (MIDP). Automotives was the only sector outside of the MEC-core that saw positive investment and growth in value added and employment, except for food and beverages, which has been expanding based on regional integration (figures 9-11). The Duty Credit Certificate Scheme (DCCS) for clothing and textiles was completely inadequate in supporting the sector in the face of import competition and the sector has been particularly hard hit since 1994. In 2017, there were 115,000 fewer jobs in textiles and clothing than there had been in 1993. Figures 9-11 reveal the devastating effects of GEAR in terms of deindustrialisation, particularly in labour intensive sectors. In terms of gross value added, manufacturing’s share of the total has shrunk dramatically from 21% in 1993 to just 4% in 2017 (figures 4 and 5). Manufacturing share of employment has fallen from 14.8% to 9.4% over the same period. The pattern of deindustrialisation has increased the capital intensity of manufacturing and therefore an acceleration in unemployment associated with declining manufacturing. In 2010, light manufacturing had fallen to just 33.8% of the net value of output in total manufacturing.

Whilst economic policies have shifted since 2007 to focus increasingly on microeconomic reforms, and employment generation through the promotion of labour intensive manufacturing, the macroeconomic framing of GEAR persists to the present day that contradicts efforts to promote diversification in manufacturing. 2007 saw something of a resurgence of industrial policies with the introduction of the National Industrial Policy Framework (NIPF), the New Growth Path (NGP) Document of the newly created Economic Development Department and subsequent Industrial Policy Action Plan oriented around the need to develop and diversify manufacturing in order to address the crises of unemployment, low investment and worsening inequality. The IDC, in turn, shifted its focus towards supporting more labour-intensive and value-adding manufacturing sectors. However, there was little discernable shift away from capital intensive sectors. 22 Ideological opposition to industrial policy by the Treasury also delayed and limited the implementation of industrial policy. By the time any meaningful budget allocation was initiated, the South African economy was in the midst of a recession triggered by the Global Financial Crisis in 2009/10 that saw manufacturing, especially labour intensive manufacturing, was particularly hard hit. In spite of the emphasis on industrial policy, its translation to tangible results have been limited and often frustrated. For example, leveraging industrial development through public procurement was only introduced in 2012 in the “Preferential Procurement Policy Framework Act”. In reality, there has been little evidence of compliance with designations for local content and reportedly corrupt deals struck with foreign suppliers. 23

Neoliberal macroeconomic policies and limited industrial policy has resulted in low levels of fixed investment in the South African economy. Figure 12 plots the trend in annual gross fixed capital investment across selected sectors. Gross fixed capital investment increased sluggishly across until 2004 at levels that barely maintained the overall levels of capital stock (figure 15). Investment accelerated between 2004 and 2008 across MEC sectors, and finance and business. This expansion

21 Ibid. and Isaacs, G. (2014). The myth of “neutrality” and the rhetoric of “stability”: macroeconomic policy in democratic South Africa. PERSA – Political Economy of Restructuring in South Africa


23 Ibid.
related to the commodity price boom that peaked in 2008 and was largely concentrated in platinum mining. Whilst investment fell off across sectors outside of the MEC with the onset of recession in 2009, investment in MEC sectors, including manufacturing within the MEC core, had been maintained because of the cohesion of the core sectors and the cumulative and causal dynamics of demand across linked sub-sectors as well as the disarticulation between other sectors. The dip in investment since 2015 in MEC sectors suggests that the positive cumulative causal dynamics are running out of steam. The overall effect has been to reproduce apartheid patterns of investment and further entrenching the skewed industrial structure largely limited to the MEC-core. This has not only contributed to the deepening of structural unemployment but has facilitated the fragmentation and disciplining of the working class that, persistent unequal sectoral, racial and gendered wage patterns, as well as heavy bias on remuneration in favour of ‘skilled’ workers (discussed further in section 4).
Figure 12. Gross fixed capital investment across selected sectors

Authors calculations; Data source: Quantec

Figure 13. Sectoral distribution of fixed capital stock, 1993

Data source: Quantec 2019
Figure 14. Sectoral distribution of fixed capital stock, 2016

<table>
<thead>
<tr>
<th>Sector</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, forestry and fishing [QSIC 1]</td>
<td>4%</td>
</tr>
<tr>
<td>Mining and quarrying [QSIC 2]</td>
<td>10%</td>
</tr>
<tr>
<td>Manufacturing [QSIC 3]</td>
<td>9%</td>
</tr>
<tr>
<td>Electricity, gas and water [QSIC 4]</td>
<td>11%</td>
</tr>
<tr>
<td>Construction [QSIC 5]</td>
<td>1%</td>
</tr>
<tr>
<td>Trade, catering and accommodation services [QSIC 6]</td>
<td>4%</td>
</tr>
<tr>
<td>Financial intermediation, insurance, real estate and business services [QSIC 8]</td>
<td>36%</td>
</tr>
<tr>
<td>General government services [QSIC 91-92]</td>
<td>21%</td>
</tr>
<tr>
<td>Community, social and personal services [QSIC 92-96, 99]</td>
<td>4%</td>
</tr>
</tbody>
</table>

Data source: Quantec 2019
Figure 10 Distribution of capital stock across economic sectors, 1995, 2005 and 2015

Data source: Quantecc 2019
Figure 16. MEC and non-MEC manufacturing employment, 1970-2016\textsuperscript{28}

Figure 17. Employment in broad service subsectors, 1970-2016\textsuperscript{29}

\textsuperscript{28} Authors own calculations based on data from Quantec 2019

\textsuperscript{29} Data source: Quantec 2019
3. The financialised MEC

Within the academic literature we can identify three clusters of meaning for financialisation that are useful in trying to understand the nature of South African capitalism today. First is the “rise of shareholder value” or the transition from ‘old economy’ to ‘new economy’ business models (Lazonick 2010). This is related to the idea of maximisation of shareholder value connected to downsizing and unbundling of corporate interests (Lazonic and O’Sullivan 2000). It reflects a reorientation of nonfinancial corporations away from productive activities towards purely financial investment. There is growing evidence of the financialisation of non-financial corporations in South Africa. Financialisation has also been understood more systemically as a defining characteristic of contemporary capitalism as a natural consequence of free-market post liberalisation and the deregulation of financial markets. The third cluster of meaning relates to the “financialisation of everyday life”. Here, authors have cited the rise of the citizen investor, and a shift towards financial markets for the provision of people’s basic needs that increasingly ties each of us to financial markets and the imperatives of finance. The extent of the financialisation of everyday life in South Africa was most recently revealed in the social grants payment crisis of 2018.

An account of the financialisation of the South African economy is presented in this section. It is shown that financialisation of the South African economy has been premised upon the specific historical South Africa’s system of accumulation, the MEC. The form that financialisation has taken in South Africa and its implications on distribution and unemployment is conditioned upon the specific nature of industrialisation and economic development that extends further back in time than the era of financialisation often identified as beginning around 1980.

As discussed above, industrial policies of the apartheid era involved the promotion of finance. With the dual crises of debt and political legitimacy, the 1980s and early 1990s saw volatile and negative GDP growth rates that were driven by divestment (negative growth in the capital stock) that resulted from external economic sanctions and the reluctance of domestic capitalists to invest in illiquid fixed assets with growing political uncertainty. Trapped by economic sanctions, domestic capital sought alternative avenues for investment via the financial sector. The period from the mid-1980s until the


early 1990s saw persistently large financial surpluses as a share of GDP in the domestic economy (Newman 2014). This saw the increase in acquisition of financial assets by non-financial corporations throughout the 1980s that fuelled the rapid expansion of, and developments in, the financial sector made possible by a series of financial sector reforms (figure 18). The financial sector reforms of the 1980s amounted to deregulation through the abolition of specialised bank categories and the removal of barriers against foreign entry into the sector and the shift to international standards for capital requirements as prescribed by Basel and saw the rapid expansion of the financial sector.\textsuperscript{32}

These historical developments resulted in a financial sector that was both large and sophisticated relative to the overall size of the economy and per capita income level. The charts in figure 19 compares South Africa with high income and middle income countries according to standard measurements of financial development. By all standards, South Africa’s financial sector is more developed than the medium-upper-middle-income country and is comparable to the financial sectors in high-income economies.

\textit{Figure 11. Net annual capital formation, acquisition of financial assets and financial investment by non-financial corporations in South Africa: 1970-2010}\textsuperscript{33}
3.1 Financialisation, credit expansion, asset price inflation and inequality

As discussed above, macroeconomic policy in the post-1994 period has reflected the interest of South African capital to internationalise and financialise and entailed the liberalization of the capital account which served the dual process of directly facilitating the outflow of capital and portfolio inflows into the economy attracted by high interest rates and a sophisticated financial sector (figure?). These capital inflows ameliorate the impact of capital flight and a large and persistent current account deficit on the overall balance of payments.

Owing to their short-term nature, portfolio inflows have not financed long-term productive investment, rather, they have been channelled into financial markets, fuelling asset price inflation. Short-term inflows have financed the expansion of credit, both for consumption and mortgages with the expansion of the latter driving dramatic increases in house prices. (figures 20-25)

Given the highly unequal distribution of assets (both financial and physical) in South Africa, asset price inflation has a profound effect on both wealth inequality and income inequality. Amongst the components of assets and debts, financial asset are the most unequally distributed, with a Gini coefficient of 0.95.\textsuperscript{35} The most dramatic increase in income has been experienced by the top 10% of the population who saw an increase 4.2 percentage points in their share of total income between

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\textsuperscript{34} Data source: Beck and Demirg\u{u}\c{c}-Kunt 2009

1993 and 2008 as only the few at the very top of the wealth distribution directly hold equities and benefit from capital gains, dividends and interest payments.  

Figure 20. Composition of the financial account balance, 1970-2013

Figure 21. JSE all share index, 1985-2013

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37 Data source: SARB Quarterly Bulletin 2014

38 Data source Quantec 2014
Figure 22. Credit extension by all monetary institutions as a % of GDP, 1966-2012

Figure 23. Mortgage credit extension and outstanding, 1966-2013

Figure 24. ABSA nominal house prices: middle segment

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39 Data source: SARB Quarterly Bulletin 2014
40 Ibid.
41 Data source Quanteq 2014
3.2 Financialisation of non-financial corporations, investment and employment

As discussed above, growth in the capital stock stagnated in the 1980s as the debt crisis, the crisis of apartheid and economic sanctions culminated into a situation where domestic capital was reluctant to invest. But despite the transition to democracy in 1994, investment in the capital stock did not pick up until 2002. As outlined in section 2, this increase in investment has been highly uneven in terms of its distribution across industrial sectors, and has largely been driven by state sanctioned infrastructure mega projects that include provisions for the 2010 Soccer World Cup, energy and port expansion.

Traditionally, under a ‘productionist’ model, firms reinvested significant portions of the surplus obtained from production to increase the capital stock and thus the productive base of the firm. The ‘productionist’ model saw firms as the core site of capital accumulation. By contrast, the process of financialisation, or a ‘financialised’ business model sees an increase firms’ financial operations and motives. The financialised firm has a very different relationship with the financial sector, itself transformed from simple intermediary between households’ savings and firms’ investment into regulator of firm and household behaviour. One dimension of this is the tying together of firm performance with performance of its stocks and shares on capital markets associated with the shareholder value movement and the expansion in the acquisition of financial assets at the expense of investment in fixed assets. The post 1994 period has seen a levelling of the ratio of financial to fixed assets at around 2.5 as investment stock recovered somewhat without reducing the acquisition of financial assets by non-financial corporations (figure 18). This pattern is corroborated by the trend in the ratio of fixed to total assets held non-financial corporations listed on the Johannesburg Stock Exchange (JSE).

The period since 1994 has seen not only an increase in the overall value of financial assets acquired each year, but also a change in composition. The composition of financial assets acquired by non-financial corporations has become more diversified, liquid and varying from year to year. Another important feature of firms use of funds in the post 1994 period has been the holding of increasingly large cash balances. On average cash/money made up 19% of annual financial acquisitions

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42 Data source: SARB Quarterly Bulletin 2014
in the period 1970-1987 compared to an annual mean of 48% from 1988-2010. In a detailed study of JSE listed firms, Karwowski\textsuperscript{45} found that overcapitalisation was the norm for mining and basic materials producers. Karowski showed that in the context of South Africa, firms hold substantial assets in cash and cash equivalent form and use financial markets to: finance highly speculative activity; substitute waning operational profits for financial income in the case of mature companies; and in order for emerging companies to amass large volumes of liquidity to counter operational losses as they establish their productive operations.

The financialisation of non-financial corporations in South Africa has had the effect, not only of keeping overall levels of private investment in fixed capital low, but also to reproduce the old apartheid pattern of investment concentrated upon MEC sectors. This pattern of investment has serious implications for the nature of employment and unemployment. The main driver of inequality at the bottom end of the income distribution has been persistently high levels of unemployment. Systemically, rising unemployment can be attributed to falling levels of real investment and the process of ‘deindustrialisation’ that has been deepened by financialised patterns of investment. Rather than funding investment, credit expansion has financed the accumulation of financial assets, and private consumption that has financed the expansion of low-pay service sectors.

Moreover, corporate unbundling has involved higher degrees of outsourcing, greater arms-length relationships with contractors and growing precariousness of labour relations. Much of the increase in services employment was related to outsourcing of low-pay services from manufacturing, in particular cleaning and security\textsuperscript{46}. Financialisation thus affects the level and conditions of employment via a number of distinct but interconnected channels that are illustrated in figure 26.


Figure 26. Channels from financialisation to unemployment in the South African Economy

Financialised corporate strategies and restructuring (unbundling & internationalisation) of former conglomerates

Neoliberal Macroeconomic Framework

Trade liberalisation

Liberalised international capital flows

High interest rates

Long-term capital outflows

Short-term (speculative) capital outflows

via financial sector

↑Macroeconomic instability (↑frequency and amplitude of economic cycles)

↑Investment in short-term financial assets

↑procyclical nature of ‘real’ investment

expansion of services sectors during upswings (e.g. retail)

↓Direct employment by NFCs

Structural unemployment

↑Employment in services

• ↑Labour broking
• ↑precarious contractual arrangements
• ↓social protection & provision
• ↓investment on skills development
• ↑procyclical pattern on employment

↓Long-term ‘productive’ investment

Unbundling, downsizing and focus on ‘core competence’

Outsourcing of non-core functions

Deindustrialisation + reproduces apartheid pattern of ‘productive’ investment focussed on MEC core

Long-term capital outflows

Short-term (speculative) capital outflows

↓Macroeconomic instability (↑frequency and amplitude of economic cycles)

↑Macroeconomic instability (↑frequency and amplitude of economic cycles)

↑ Investments in short-term financial assets

↑procyclical nature of ‘real’ investment

expansion of services sectors during upswings (e.g. retail)

↓long-term productive investment

Firm performance directly related to share prices linked to profitability and delinked from productive expansion, innovation and productivity

4. **Structural underpinnings of income inequality**

Recent studies that attempt to decompose different factors that have contributed to worsening income inequality in South Africa have identified wage income inequality as the main driver for inequality, contributing to just over 90% to overall inequality\(^{48}\). The contribution of wage income inequality to overall income inequality can further be broken down to two components: inequality owing to unemployment (zero earners), and wage differentials, contributing 38% and 62% respectively to income inequality\(^ {49}\). Sections 2 and 3 have illustrated how the evolving structure of the South African economy from MEC to financialised-MEC underpins the enduring unemployment based on low physical investment, the skewed industrial structure characterised by the presence of a cohesive MEC core and the disarticulation of other economic sectors with its associated capital intensity and limited capacity to absorb labour. This section investigates the structural underpinnings of wage dispersion in the economy and considers how this relates to income inequalities across race and gender.

Much of the recent literature has attributed problems of unemployment and wage income inequality to an insufficient supply of skilled labour and a surplus of unskilled labour\(^ {50}\). This view supports a policy prescription of skills development as sufficient for dealing with the problem of unemployment in South Africa. The discussion in sections 2 and 3 have shown that the labour intensity of growth since 1994 has been declining owing to the dynamics of structural change and the financialised-MEC as a key feature of the post-apartheid growth path. Much of the growth in employment since 1994 has been in low paid, low wage service sectors. The post-apartheid period has seen a sharp contraction in labour intensive manufacturing and hence a decline ‘semi-skilled’ and ‘low-skilled’ jobs. Whilst universal access to high quality education and training should be a policy goal, it does not follow that increasing the skill level of the population would necessarily lead to more jobs given the structure of the South African economy and its dynamic.

Figure 27. show trends in the average remuneration per worker from 1993 to 2017. The period has seen very limited overall growth in real wages. The formal sector mean wage has increased by just 47% in 24 years. In 1993, remuneration was heavily biased in favour of ‘skilled’ workers who on average earned 2.09 times as much as the average formally employed worker. By 2017, the bias had reduced slightly in magnitude with the ratio of income between the average ‘skilled’ and average formally employed worker falling to 1.8:1 as average remuneration received by ‘semi-skilled’ workers increased by 50% compared with 25% for the average ‘skilled’ workers. Since formal semi-skilled employment make up the largest skill category of employment, one would expect that their relatively faster growth in wage income would act to reduce income inequality. Both ‘semi-skilled’ and ‘low-skilled’ jobs have been most affected by job losses due to deindustrialisation and informalisation (figure 28). In 1993, 38% and 27% of those employed were classified as ‘semi-skilled’ and ‘low-skilled’ respectively, compared with 35% and 21% in 2017. Informal workers increased from 17% of those employed to over 25%. Meanwhile, the share of ‘skilled’ workers as a share of total employment increased slightly from 18% to 19%. The changing skills profile and growing informality have had the effect of worsening the wage income distribution.


\(^{49}\) Ibid.

The shifting ‘skills’ profile of employment in South Africa reflects economic restructuring and sectoral shifts associated with the financialised-MEC discussed above. Job losses from manufacturing have been replaced by service sector employment with high rates of informalisation outside of finance and government (figures 16 and 17). Sectors that have seen the highest growth in employment (trade, catering and accommodation, and community, social and personal services) have also experienced the highest rates of informalisation and related wage fall/stagnation (figures 27 and 29).

Figure 12. Average annual remuneration per worker according to skill and terms of employment, 1993-2017.\textsuperscript{51}

\textsuperscript{51} Authors own calculations based on data from Quantec 2019
Figure 28. Skills profile of employment in South Africa a) total, b) in finance and insurance, c) in all manufacturing, d) in MEC manufacturing52

52 Authors own calculations based on data from Quantec 2019
Figure 29. Formal employment as a share of total employment across sectors, 1993-2017\textsuperscript{53}

Figure 30. Average remuneration per worker by sector, 1993-2017\textsuperscript{54}

\textsuperscript{53} Authors own calculations based on data from Quantec 2019

\textsuperscript{54} Authors own calculations based on data from Quantec 2019
Average wage growth in South Africa as a whole has been very modest. Between 1993 and the eve of recession in 2008, average wages increased by less than 15% in 15 years. Wage growth has accelerated slightly after 2009. This however masks great diversity across sectors and the widening of intersectoral wage dispersion (figure 30). Stagnant or falling average wages in high employment service sectors have been noted above. Average wages in business services have seen some increases, especially since 2009, but remain below the national average. The sector that saw the greatest increase in average worker remuneration has been finance and insurance. At its peak in 2009, mean remuneration for workers in finance and insurance was close to 175% of what it had been in 1993. The financial crisis saw a brief decline in the average annual wage but has since risen to pre-crisis levels. Since 2006, finance and insurance has had the highest sector wage average. These trends are the outcome of the financialisation of the South African economy discussed in the previous section, with rising returns to financial activities relative to other economic activities. As already discussed, recent GDP growth has been driven by the expansion of the financial sector. However, the employment elasticity of growth of the financial sector is relatively low. Moreover, employment creation in finance and insurance is concentrated in ‘skilled’ and ‘semi-skilled’ jobs.

Manufacturing has also seen a sizeable increase in average pay per worker since 1994, particularly in the period since 2009, but this has been accompanied by rapid deindustrialisation outside of MEC manufacturing, particularly in labour intensive manufacturing. Average wage increases may simply reflect shifts in the composition of manufacturing and the relatively higher labour remuneration per worker in more capital-intensive manufacturing. Wages might be increasing on average in manufacturing, but this is the in the context of an overall contraction of the broad sector which, in 2017, constitutes just 9.4% of employed workers.

In 1993, workers in mining and quarrying received the highest average wage. In spite of the National Union of Mineworkers (NUM) being the largest affiliate of COSATU, the upswing in the commodity super cycle between 2002 and 2008 that saw employment increased by over 100,000 employees, and relatively lower rates of informalisation, average remuneration per worker in mining and quarrying fell by 36% from 2003 and 2008 and remained stagnant until 2012. The experience of falling wages by mineworkers culminated in the wave of strike action set off by the Marikana Massacre in 2012. Whilst average pay in mining have risen since 2012, they remain below 1993 levels, illustrating the relative power of highly concentrated mining capital over labour.

The shifting power relations between labour and capital in favour of the latter is captured by changes in the functional distribution of income. Figure 31 shows how the profit share of income increasing from 1994, displacing the wage share. Work restructuring that has occurred under the Labour Relations Act (LRA) has been instrumental to the restoration of the power of capital over labour in the post-apartheid period, and together with economic restructuring under the financialised MEC, this has acted to drive growing intersectoral wage dispersion outlined above.

Under the LRA of 1995, most of the regulation of labour and pay conditions (including the minimum wage) is left to Bargaining Councils established by the unions and employers in each sector except for in cases where unions were too weak to bargain where sectoral determinations were adopted by the Minister of Labour. In this way, the restructuring of the labour market has reflected the sectoral restructuring of the economy, entrenching the power of capital, by limiting collective bargaining to the sector level. Sectoral determinations in the context of uneven union organisation and the concentration of capital in the South African economy resulted in the fragmentation of the working class, a move away from centralised bargaining (typically associated with better outcomes for workers) to bargaining at the local level. Coverage of low-paid sectors has been partial and in this
context, labour was unable to resist casualization, informalisation and worsening precarity which further limited union organisation.\textsuperscript{55}

4.1 Sectoral change and the racial and gendered dimensions of income inequality

Figure 32. shows the stark racialized pattern of unemployment in South Africa which contributes to the racial pattern of inequality at all but the highest segments of the income distribution. There are many ways in which discrimination occurs in the labour market, through access to education and skills acquisition, class, and social networks. The analysis in the report has tried to show how the structure of the economy might also affect the racial pattern of employment by limiting the expansion of jobs that are secure and relatively well paid in low- and semi-skilled activities such as in labour intensive manufacturing.

The structure of the economy also exacerbates gendered inequalities. Women are much more likely to be employed in low wage service sector jobs in private households, community and social services (figures 33 and 34). These are also the sectors with worsening precarity, where women are disproportionately affected.\textsuperscript{57} Women are also underrepresented in relatively more secure and well-paid jobs in manufacturing and finance. There is, in general, an underpresentation of women in occupations that are higher waged and higher skilled. The charts in figure 35. show trends in the


\textsuperscript{56} Data source: SASSID 2014

gender distribution of employment according to employment status. For every female manager, there are around four male managers. The absolute number of female unpaid household members have been falling since 2008 as more women are entering the workplace as employees. Women still bear the largest share of unpaid housework and male employees continue to outnumber women.

Figure 32. Unemployment rate for different racial groups

58 Data source: Quantec 2018
Figure 33. Gendered distribution of employment across sectors, 31st December 2018, ‘000s of employees

Data source: Quantec 2018

Figure 34. Gendered distribution of employment across occupations, 31 December 2018

Data source: Quantec 2018
Figure 35. Gender distribution across employment status 2008-2018 (a) as employer, (b) as employee, (c) as own account worker, (d) as unpaid household member)
5. Conclusions and policies

This chapter has presented a structural analysis of the origins and dynamics of inequality in South Africa that challenges the efficacy of progressive policies aimed at raising employment and reducing income inequality. It has been shown that inequalities across economic and social outcomes correspond to persistent low levels of employment, low investment, low productivity and low levels of social provisioning (other than ameliorating social grants). These inequalities are underpinned by the skewed economic structure which has its roots in the political economy of apartheid industrial development. The South African economy in 1990 was heavily skewed towards capital intensive economic activities connected to extractive industries and heavily concentrated in terms of ownership by 6 diversified conglomerates.

The first decade post-apartheid saw the subordination of industrial policy to a neoliberal macroeconomic framework that was informed by conglomerate interests to globalise and financialise through unbundling, overseas listings and off-shoring. This process involved the promotion and co-option of a new black capitalist elite through BEE with interests aligned to conglomerate capital. This period saw the collapse of labour intensive manufacturing, stagnant capital investment and the reproduction of apartheid patterns of investment, further entrenching the skewed industrial structure.

Macroeconomic policy has set in chain interdependent developments. Trade liberalisation, increased imports and volatile export earnings has led to a persistent current account deficit that has been managed in the overall balance of payments through the strong defence of inflation targeting with high interest rates serving also to attract short-term capital inflows and a capital account surplus. Whilst a source of instability, short-term portfolio inflows have financed the expansion of the financial sector, fueling asset price inflation, and restructuring of the financial sector to serve financialised accumulation rather than long-term productive investment.

South Africa’s economic trajectory and policy making have been dictated by globalization, financialisation and neoliberalisation serving the interests of capital. This is evident from tensions between Treasury and its continued commitment to and promotion of neoliberal macroeconomic policies on the one hand, and the DTI and EDD who’s efforts to develop and enact industrial policy has been severely limited, on the other. Policy has become centralised under Presidential and Treasury control, stifling initiatives and coordination of industrial policy and geared policy towards financialisation, globalisation, neoliberalisation and elite enrichment. The amplification of income inequalities has taken place through persistent high levels of unemployment, worsening informality, skewed sectoral patterns of employment and remuneration as well as highly unequal relations between different income groups and the financial sector.

Addressing the crisis of inequality in South Africa therefore needs to go much further than the labour market reforms and skills development policies that have been advocates by mainstream economists. Labour market reforms must be geared towards workers protection and fair pay and benefits across sectors. This would involve a sufficiently high national minimum wage together with a maximum income cap that could deal with sectoral, skills and gendered distributions of income highlighted in this chapter. Further, long-term socially sustainable distributions of income would require the radical transformation of the economy towards more labour intensive, linked sectors that serve the needs of the population, for example via a developmental welfare state across health, education, etc., rather than the imperatives of profit and capital expatriation.
This would involve the reorientation of macroeconomic policy away from the service of capital outflows and expansion of the financial sector in and of itself. Rather, both macro and financial policies need to be in the service of industrial policies aimed at the radical restructuring of the economy for the promotion of sustainable and equitable economic development. This would require a wide set of policies are mutually supportive and would include the shift away from inflation targeting towards full employment as the key target of macroeconomic policy and the possible replacement of the interest rate by the exchange rate as a policy tool since adjustment costs of raising interest rates may be disproportionately born by interest rate sensitive sectors that include manufacturing. Controls on short-term capital inflows would reduce sources of exchange rate and asset price fluctuations both directly and by reducing the amount of short-term funds channelled towards purely financial investment. This would entail a dramatic transformation of the financial sector where policy can support the development of a financial sector that is in the service of long-term productive investment through regulation, such as a Glass-Steagles type separation between commercial and investment banking and through state-led development of a large green industrial development bank that finances productive activities at different scales. The key to a successful strategy is the integration of macro, financial, welfare and industrial policy serving a common policy goal.