

World Economic Crisis: Implications for South Africa

CENTRE FOR
CIVIL SOCIETY

Patrick Bond

University of KwaZulu-Natal
School of Development Studies,
Durban, South Africa

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Harold Wolpe Lecture
University of the Witwatersrand
Johannesburg

7 May 2009

OUR OBJECTIVE IS TO ADVANCE SOCIO-ECONOMIC AND ENVIRONMENTAL JUSTICE BY DEVELOPING CRITICAL KNOWLEDGE ABOUT, FOR AND IN DIALOGUE WITH CIVIL SOCIETY THROUGH TEACHING, RESEARCH AND PUBLISHING.

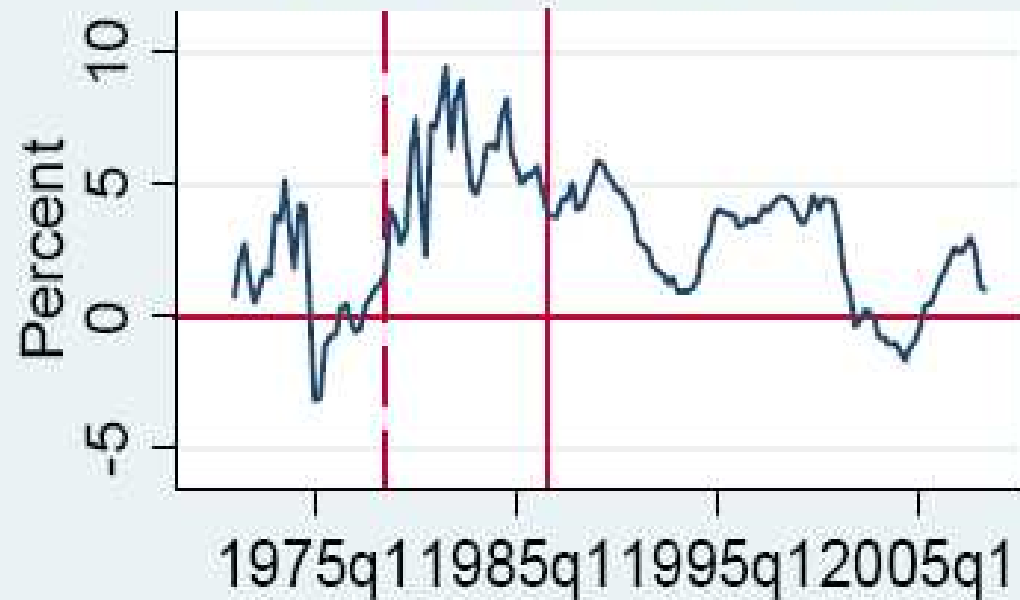
South Africa's 'Social Movements United' march from Alexandra Township to the World Summit on Sustainable Development in Sandton, 31 August 2002

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capitalism fooled economists and investors for 20 years

- **Low interest rate**
- **Low inflation rate**
- **Low unemployment**

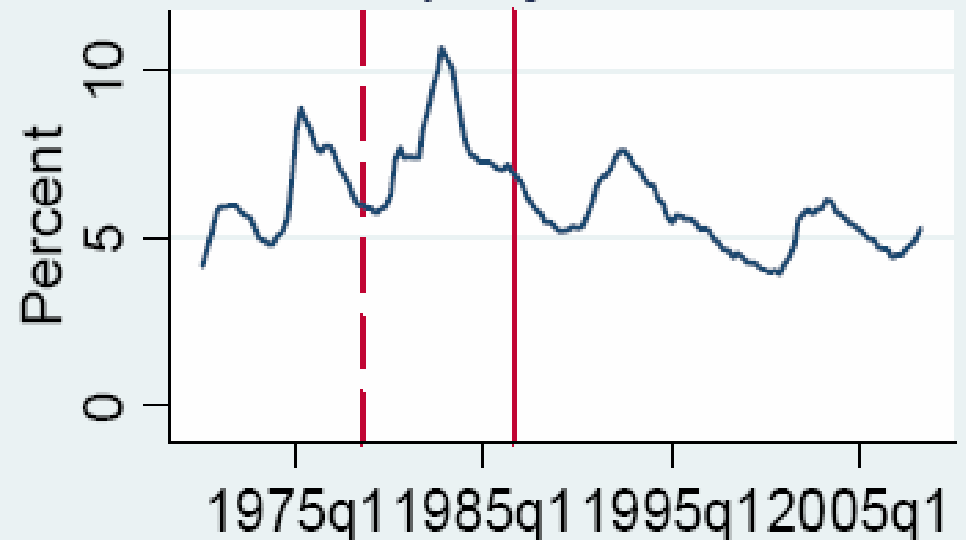
Real Interest Rate



Inflation Rate



Unemployment Rate

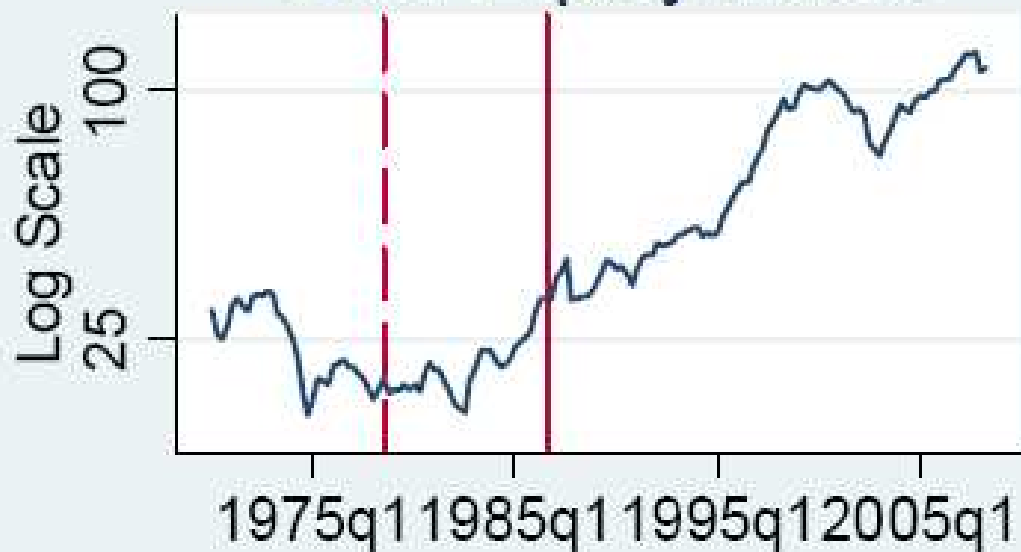


source: US Fed, Gagnon, 2009

capitalism fooled economists and investors

- **steady GDP**
- **rising stock market**
- **recovery from
currency volatility**

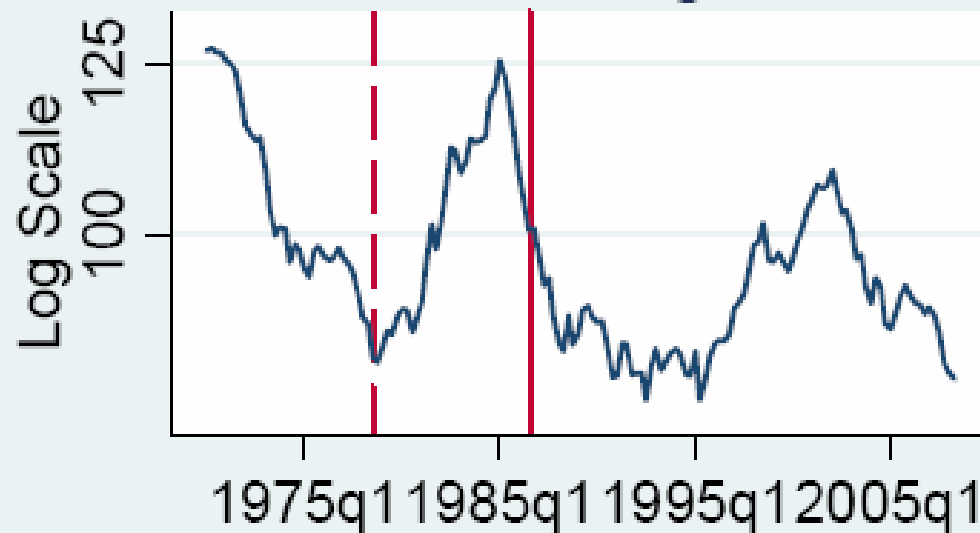
Real Equity Index



GDP Growth Rate



Real Exchange Rate



source: US Fed, Gagnon, 2009

The
Economist

SEPTEMBER 27th 2008

www.economist.com

OH FUCK!



Obama Takes the Oath

TIME

SPECIAL REPORT: THE WORLD ECONOMY

WHAT WOULD MARX THINK? BY PETER GUBROU

...THE RETURN OF POVERTY ...THE NEED FOR NEW IDEAS
...CITIS TROUBLED HISTORY



ISSN 0020-7179

1) *Underlying capitalist crisis tendencies*

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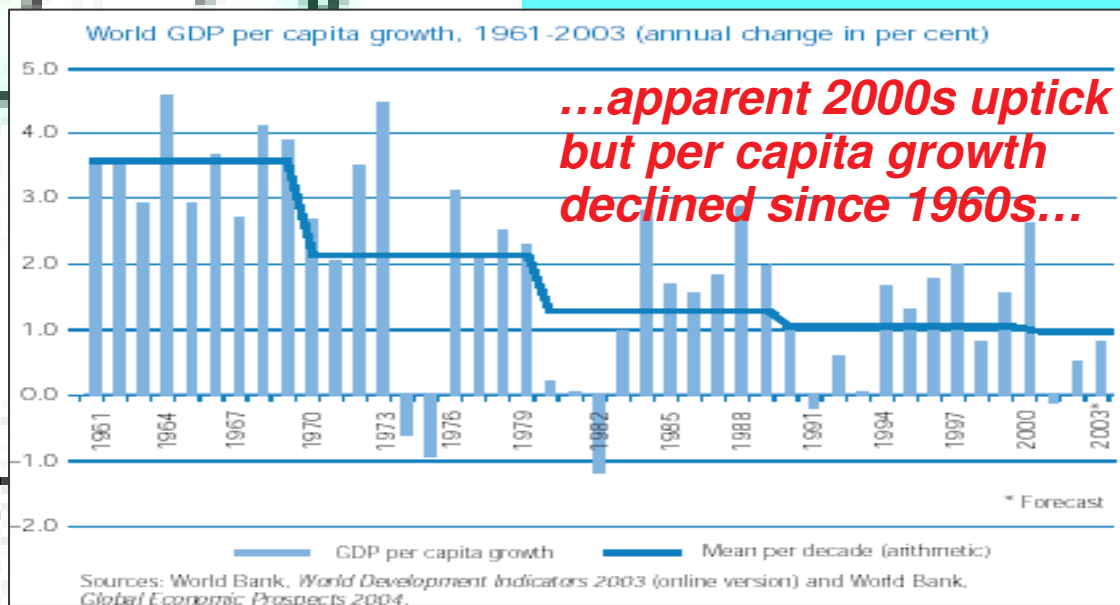
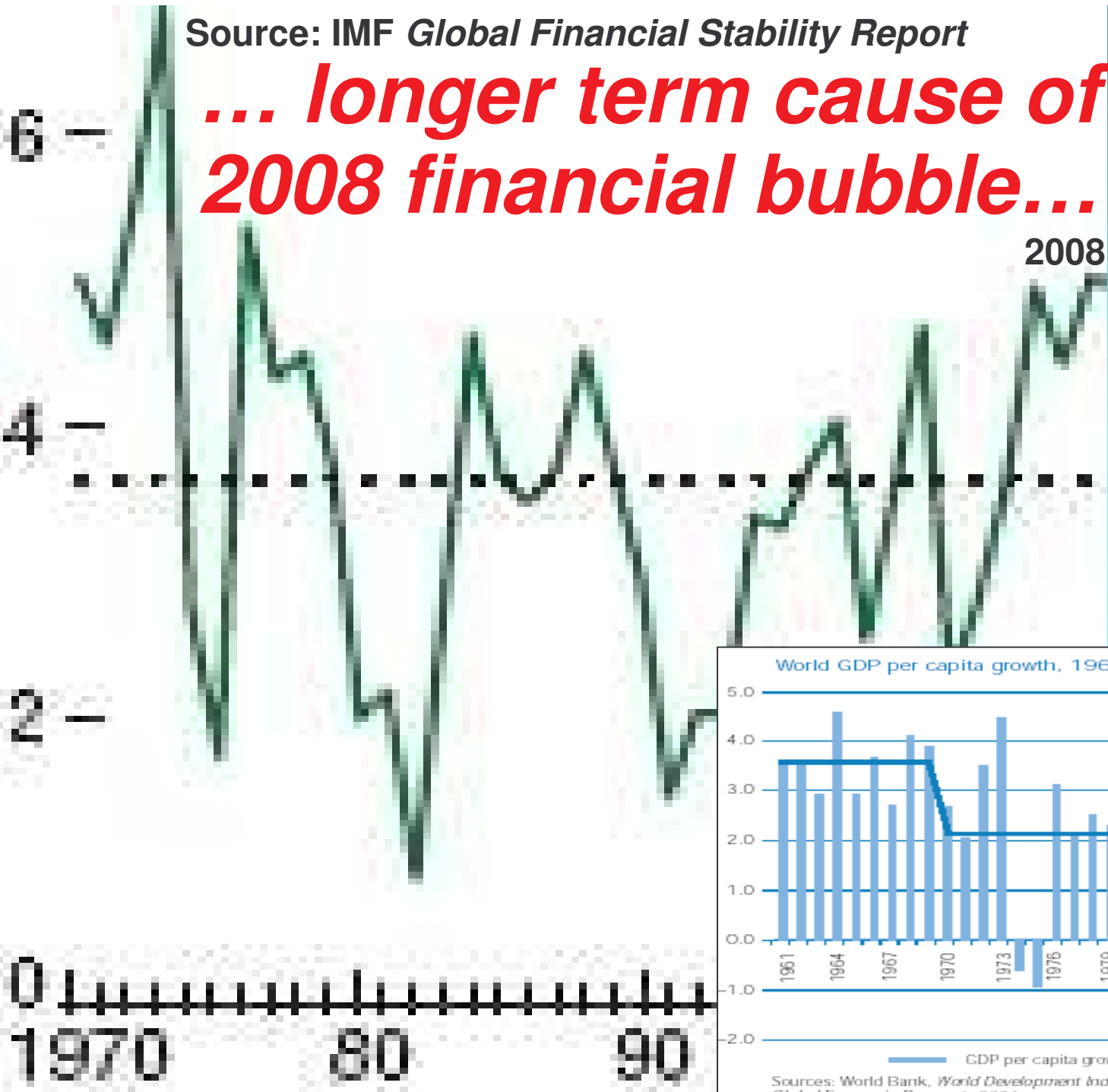
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Source: IMF *Global Financial Stability Report*

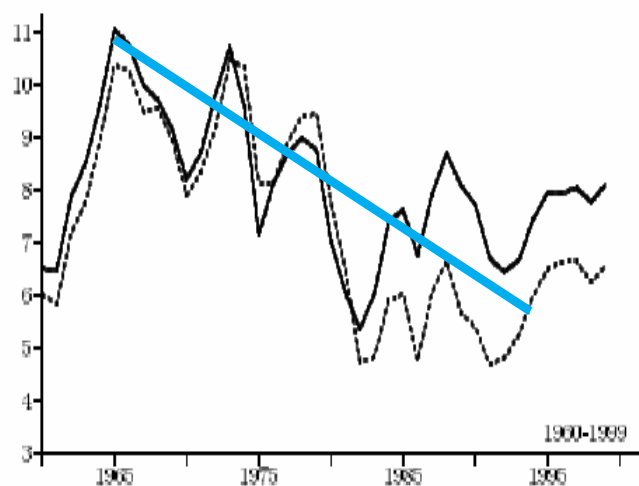
... longer term cause of 2008 financial bubble...

Background:
Stagnant
global real
annual
GDP
growth,
1970-2008

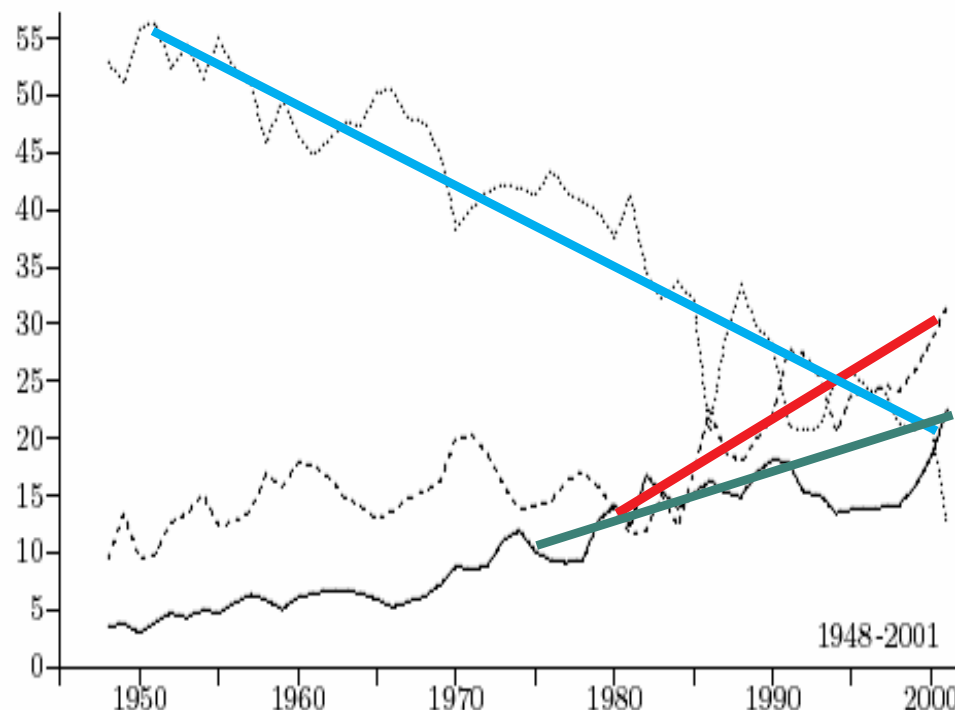


Root 'overaccumulation' process: source of declining US profits during globalisation/financialisation era

Figure 3 US, nonfinancial corporations: Profit rates prior to the payment of real interest (—) and after (-----), %



In the first series, profits are equal to the net product minus the cost of labor, and business and profit taxes. They are divided by the net worth (total assets minus debt). For the second series, real interest is subtracted from profits, i.e., interest minus a correction for the depreciation of debt resulting from inflation.



Rest of the world: (—); Financial sector: (-----); Manufacturing: (.....)

Profits are measured before profit taxes. The *rest of the world* corresponds to the excess of profits made on US investments abroad over the profits made by the rest of the world on foreign direct investment in the US. (These profits may remain in the country where the investment is made.) Trade, Construction, Public Utilities, Transportation and Communications, and services are not represented.

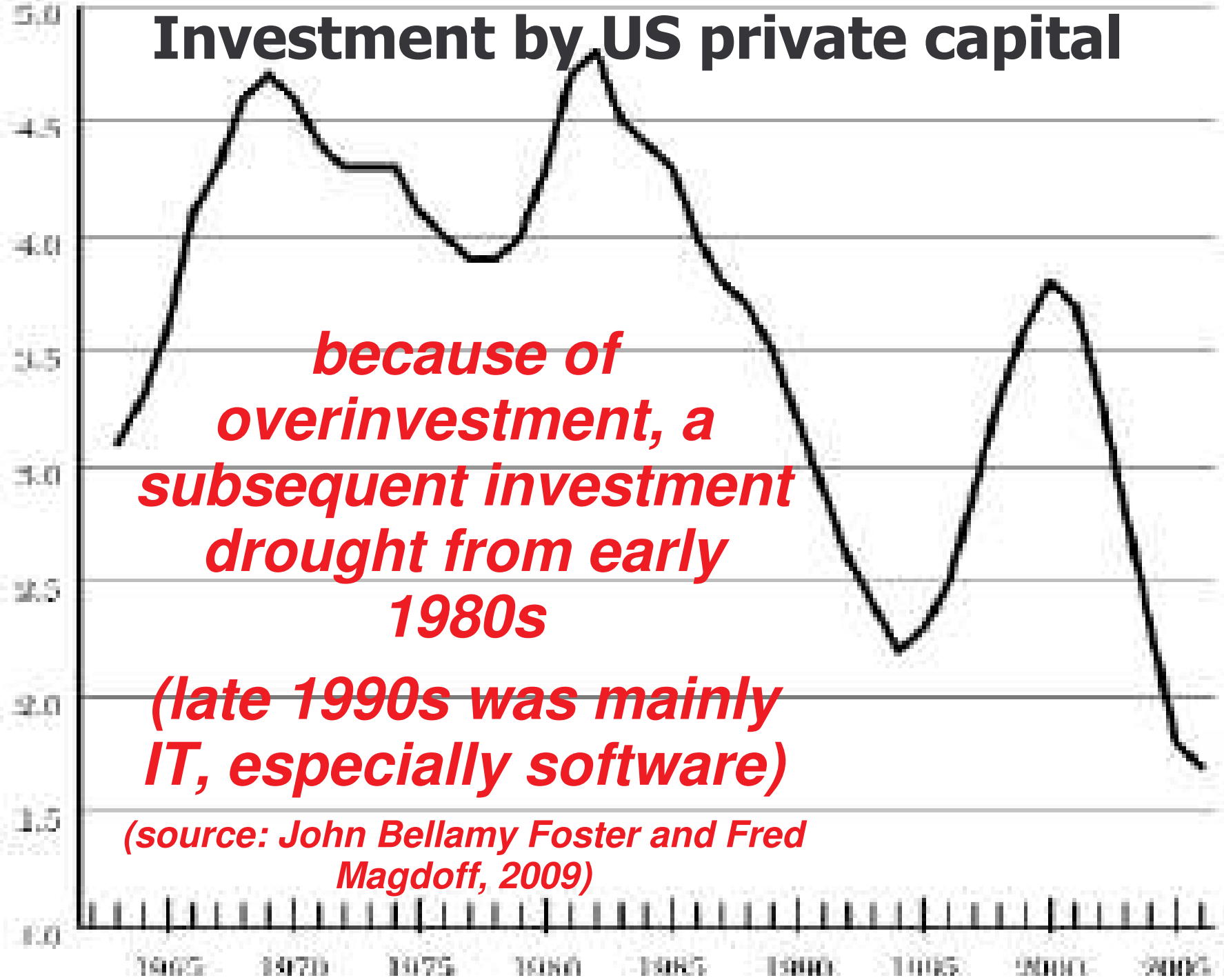
Source: NIPA (BEA).

US corporate profits derived **much less from manufacturing products**; **much greater sources of profits came from abroad**; **profits also came more from returns on financial assets.**

Source: Gerard Dumenil and Dominique Levy

Investment by US private capital

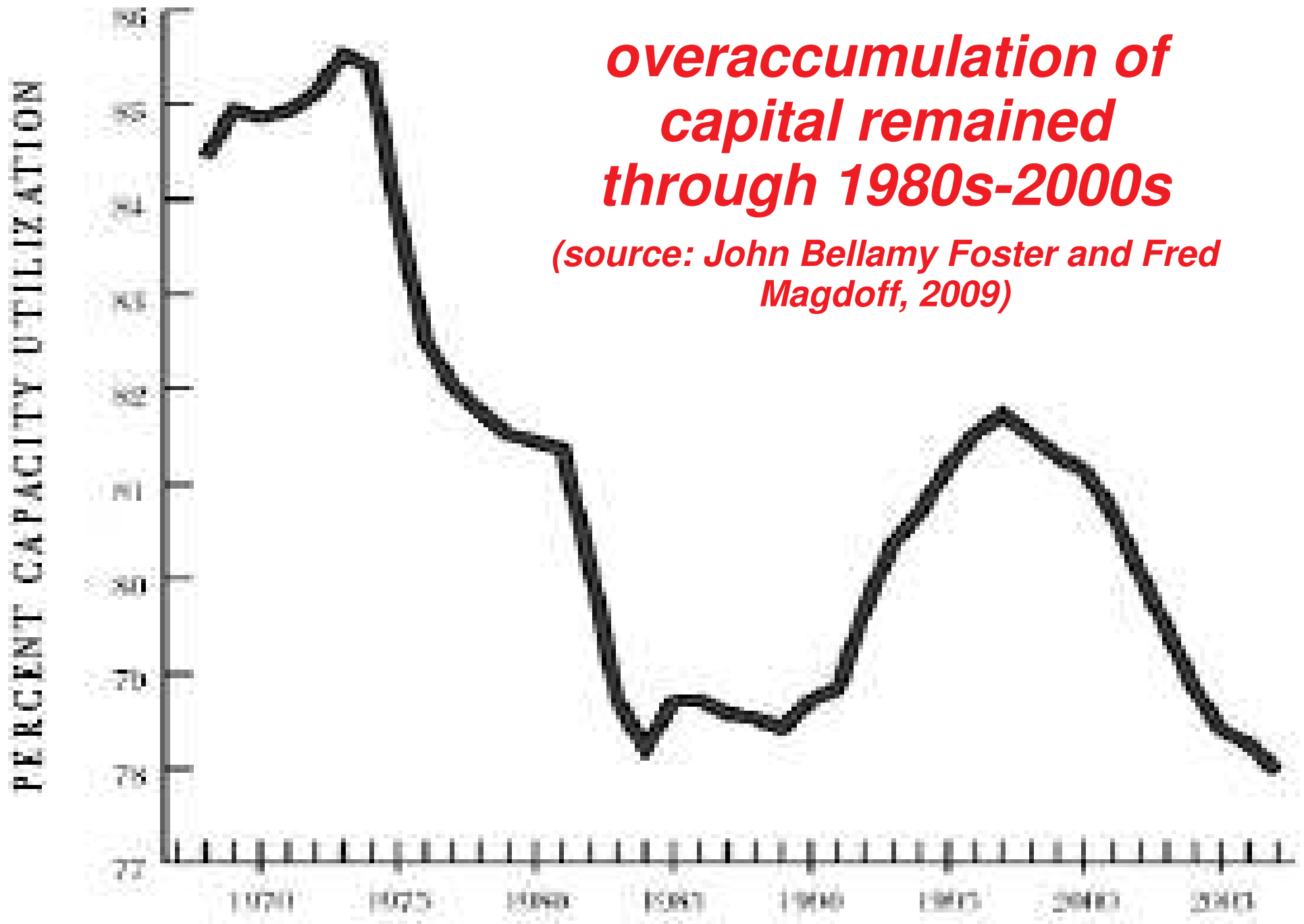
PERCENTAGE OF GDP



*because of
overinvestment, a
subsequent investment
drought from early
1980s*

*(late 1990s was mainly
IT, especially software)*

*(source: John Bellamy Foster and Fred
Magdoff, 2009)*



***overaccumulation of
capital remained
through 1980s-2000s***

***(source: John Bellamy Foster and Fred
Magdoff, 2009)***

2)

Financial bubbling as mode of crisis management

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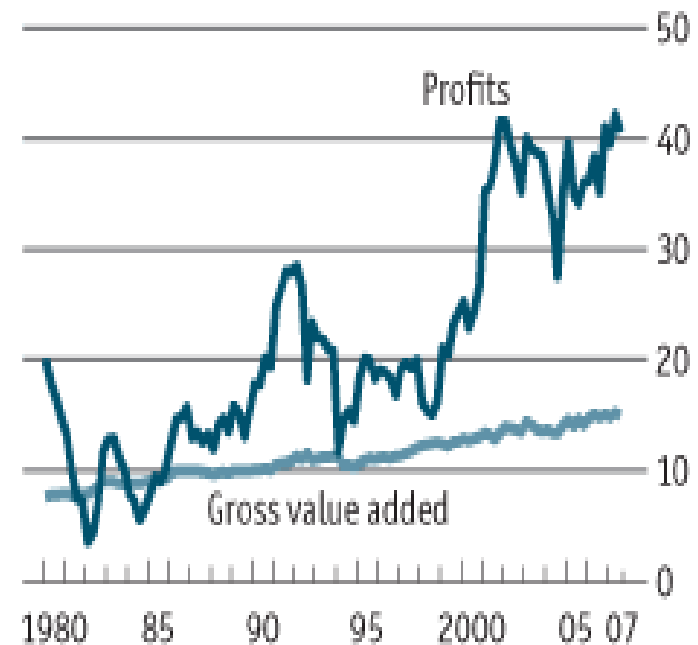
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Ugandan Marxist Dani Nabudere's thesis vindicated

*The Crash of
International
Finance Capital
and
The Rise and Fall of
Money Capital*

Finance industry profits and gross value added
As % of US corporate total



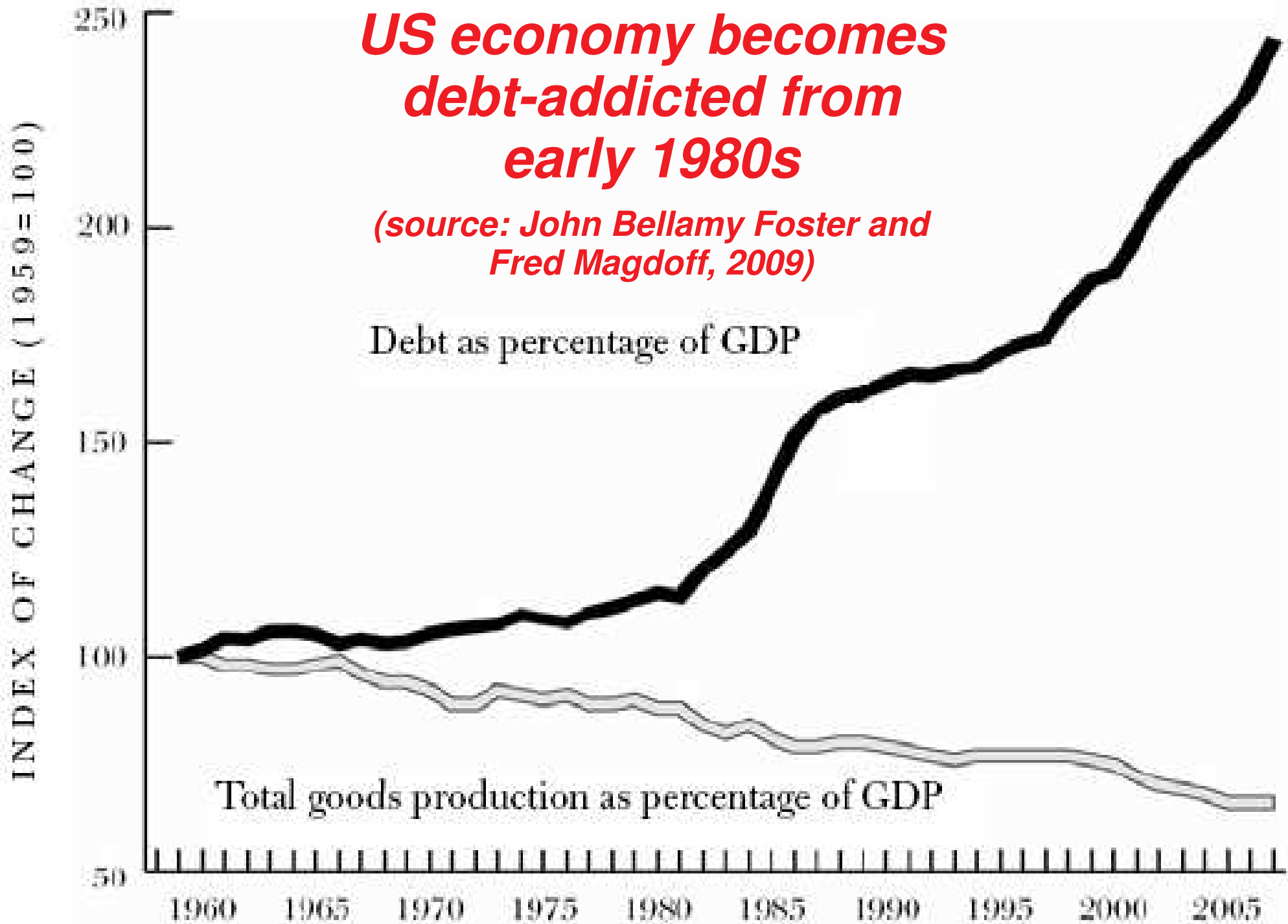
Source: BCA Research

***US economy becomes
debt-addicted from
early 1980s***

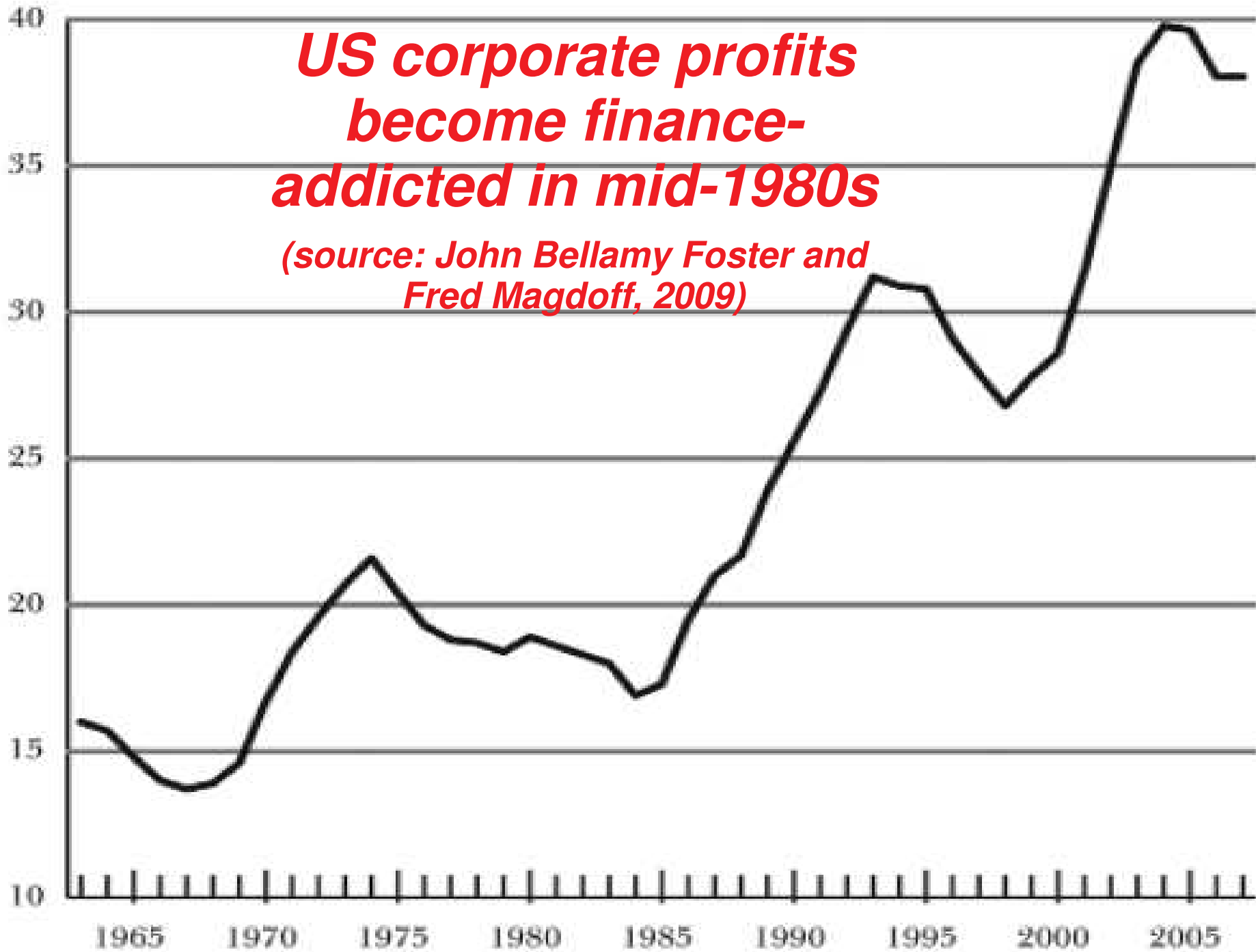
***(source: John Bellamy Foster and
Fred Magdoff, 2009)***

Debt as percentage of GDP

Total goods production as percentage of GDP



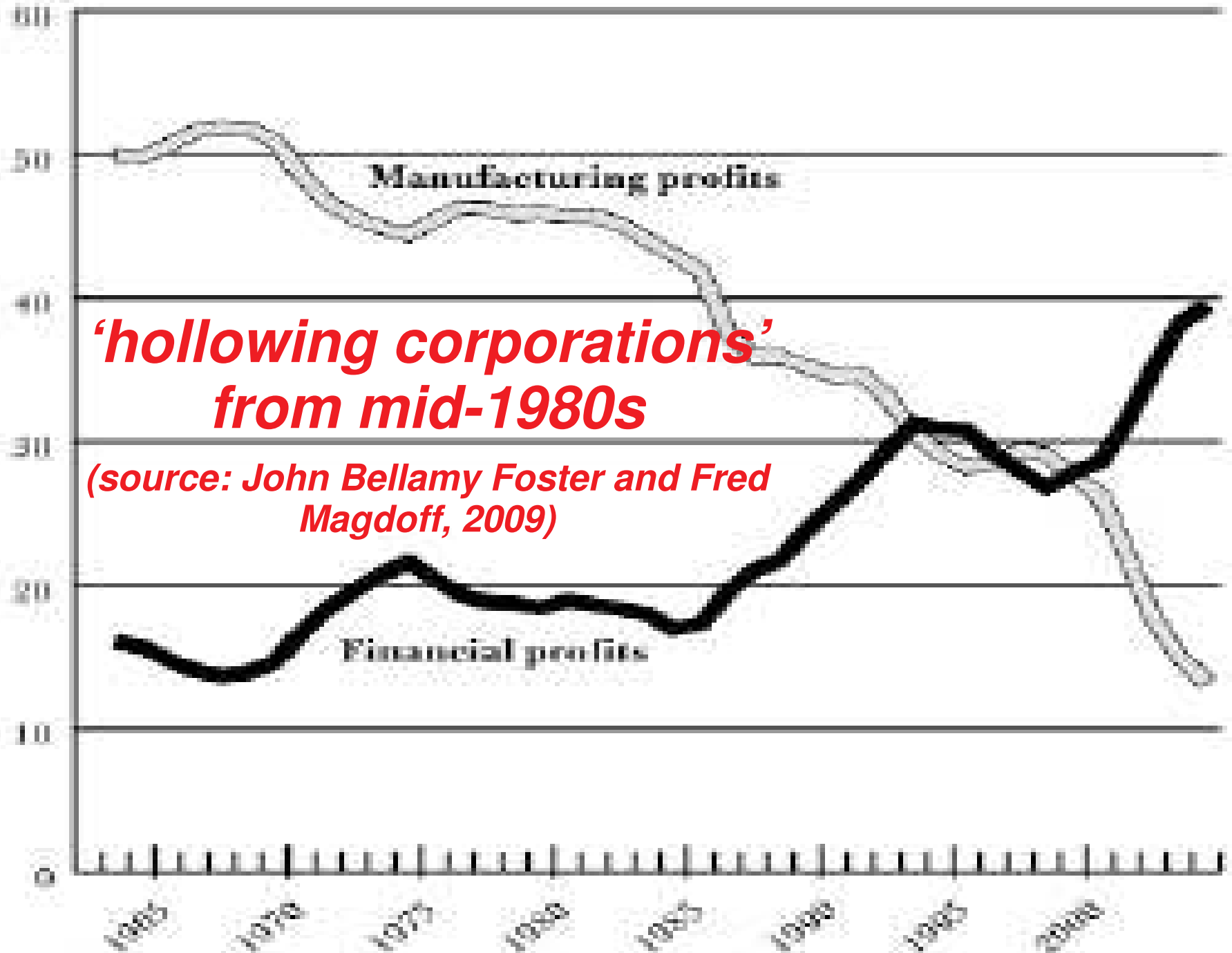
FINANCIAL PROFITS AS A PERCENTAGE OF
TOTAL DOMESTIC PROFITS



***US corporate profits
become finance-
addicted in mid-1980s***

***(source: John Bellamy Foster and
Fred Magdoff, 2009)***

PERCENT OF TOTAL DOMESTIC PROFITS



***'hollowing corporations'
from mid-1980s***

***(source: John Bellamy Foster and Fred
Magdoff, 2009)***

3)

***Volatility:
financial
bubbles
start
bursting***

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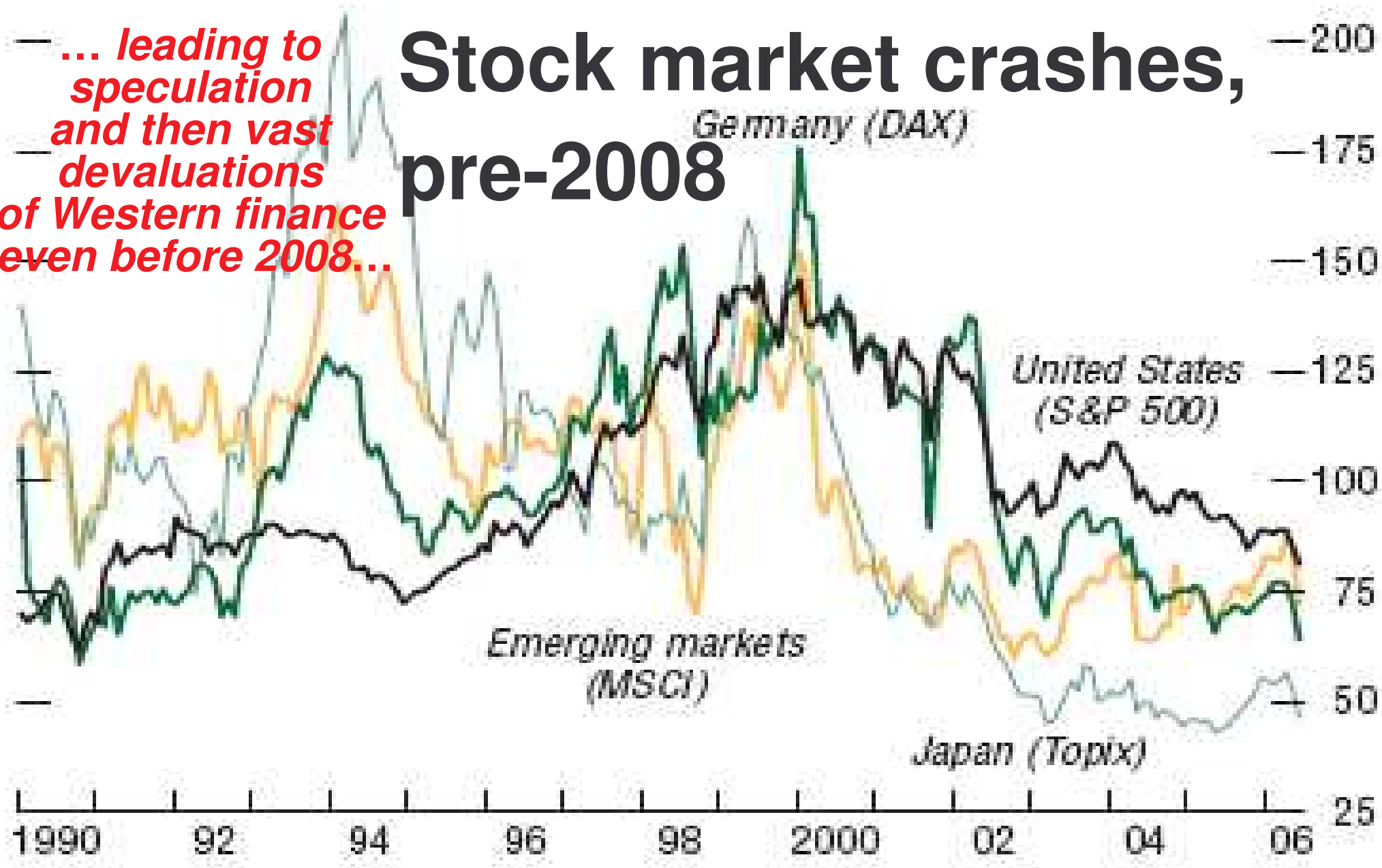
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— ... leading to speculation and then vast devaluations of Western finance even before 2008...

Stock market crashes, pre-2008



Sources: Thomson Financial I/B/E/S; and IMF staff estimates.

Volatile \$ flows into US stock market, 1990-2008

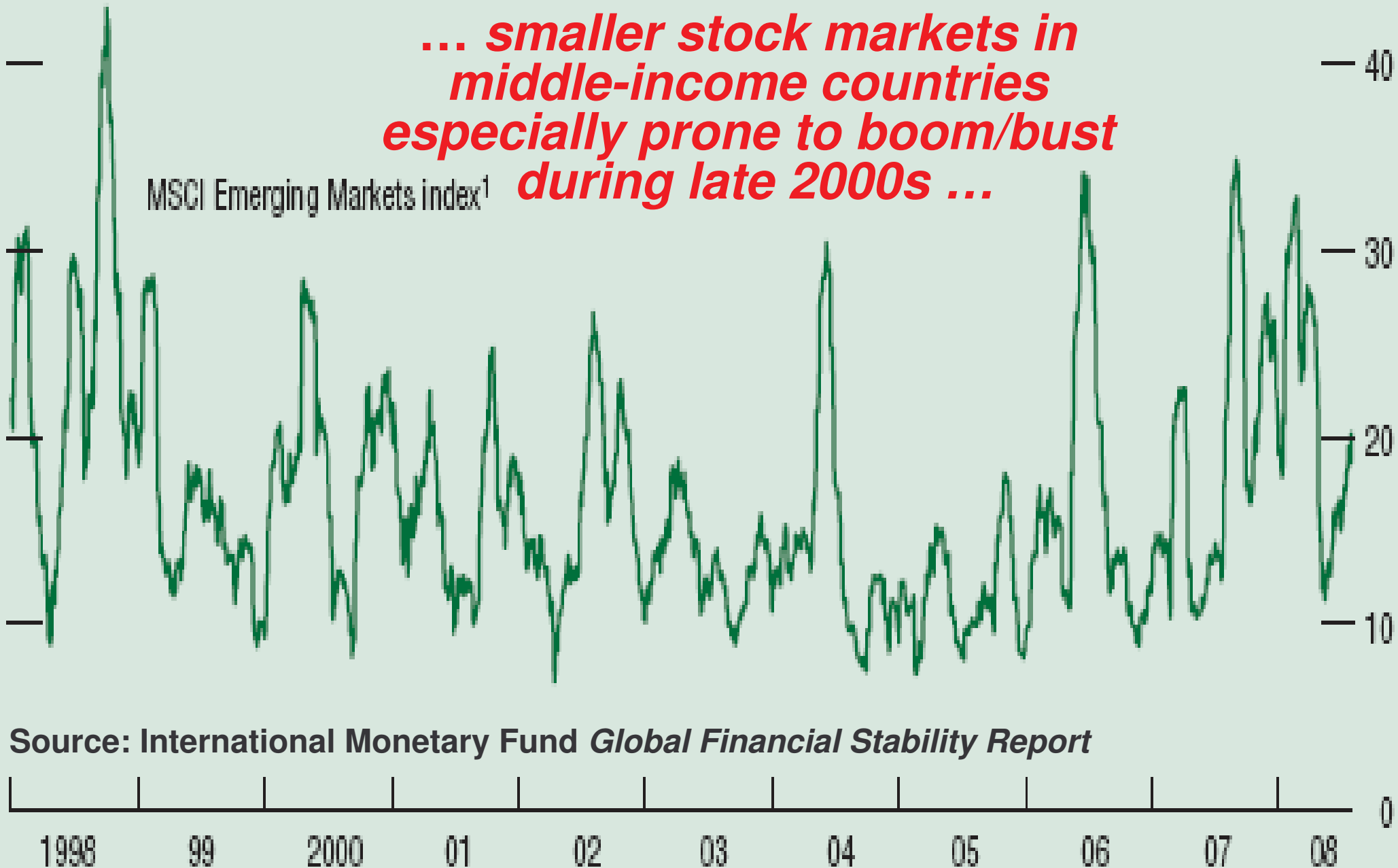


Source: International Monetary Fund *Global Financial Stability Report*

Stock market volatility: emerging markets

... smaller stock markets in middle-income countries especially prone to boom/bust during late 2000s ...

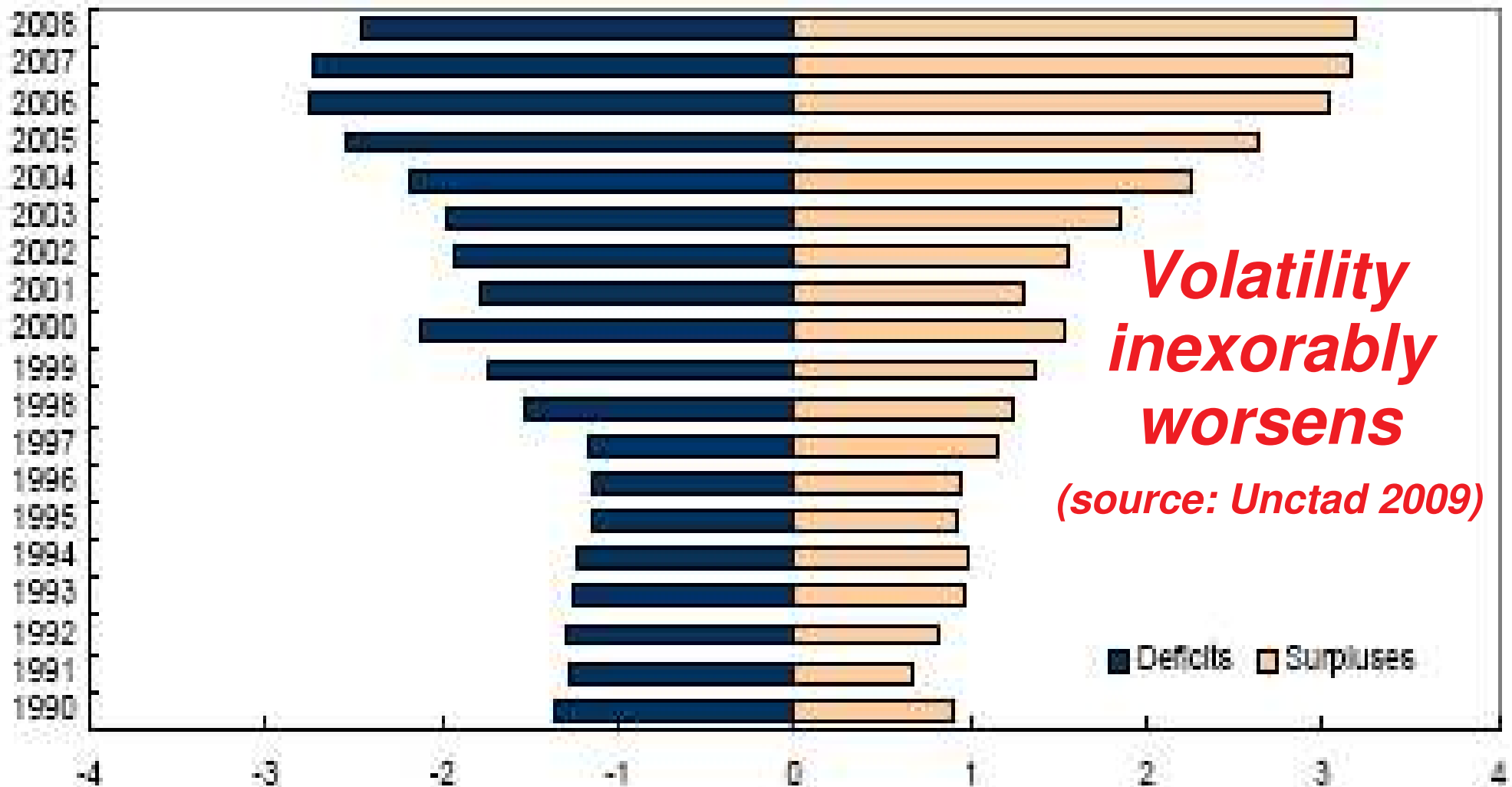
MSCI Emerging Markets index¹



Source: International Monetary Fund *Global Financial Stability Report*

GLOBAL CURRENT-ACCOUNT BALANCE, 1990–2008

(Per cent of GDP)



Source: UNCTAD secretariat calculations, based on data from Thomson DataStream.
Note: Data refer to 122 countries.

4) *Critical mass of financial devaluation*

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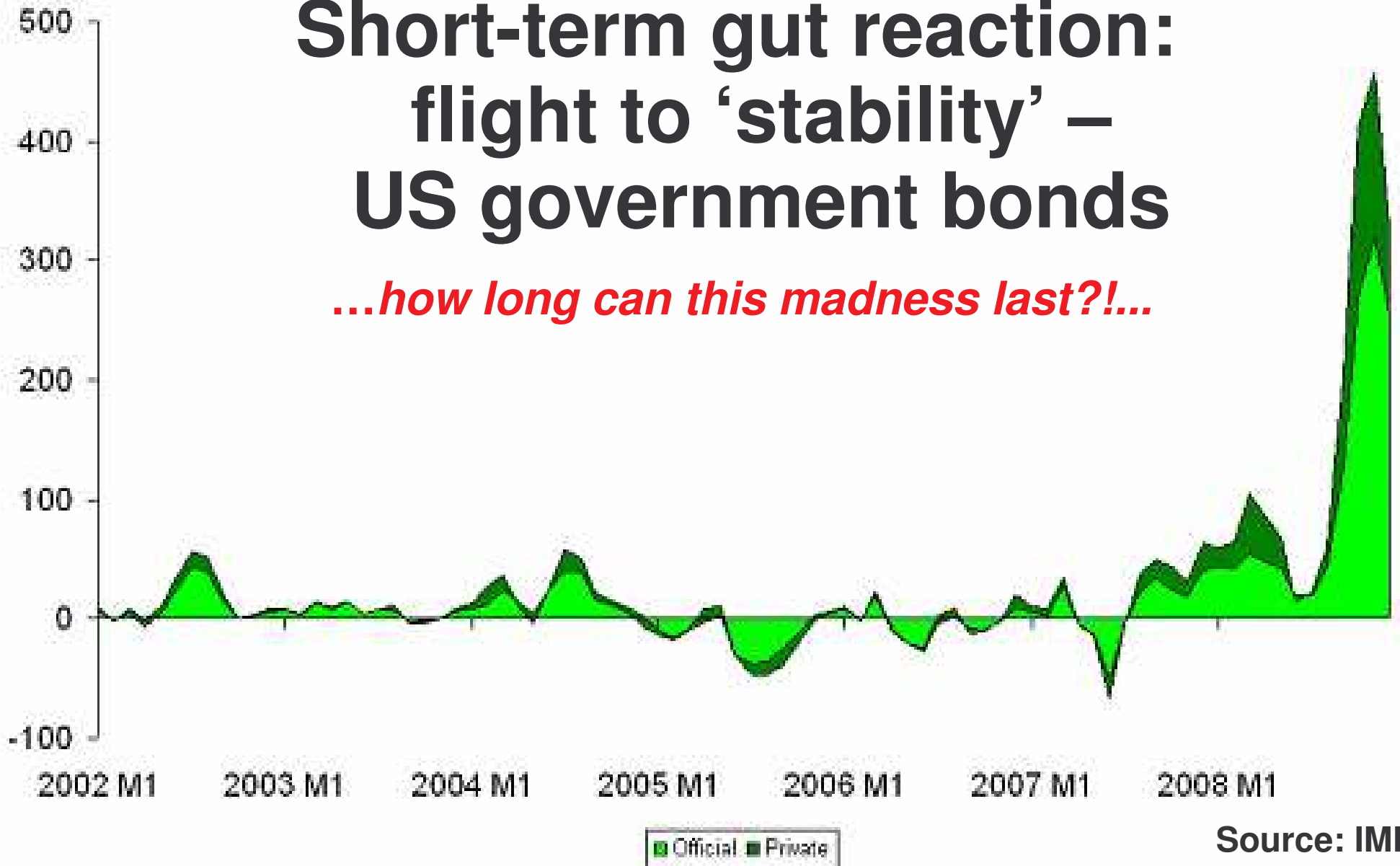
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Foreign T-bill purchases:\$ billion, rolling 3m sums

Short-term gut reaction: flight to 'stability' – US government bonds

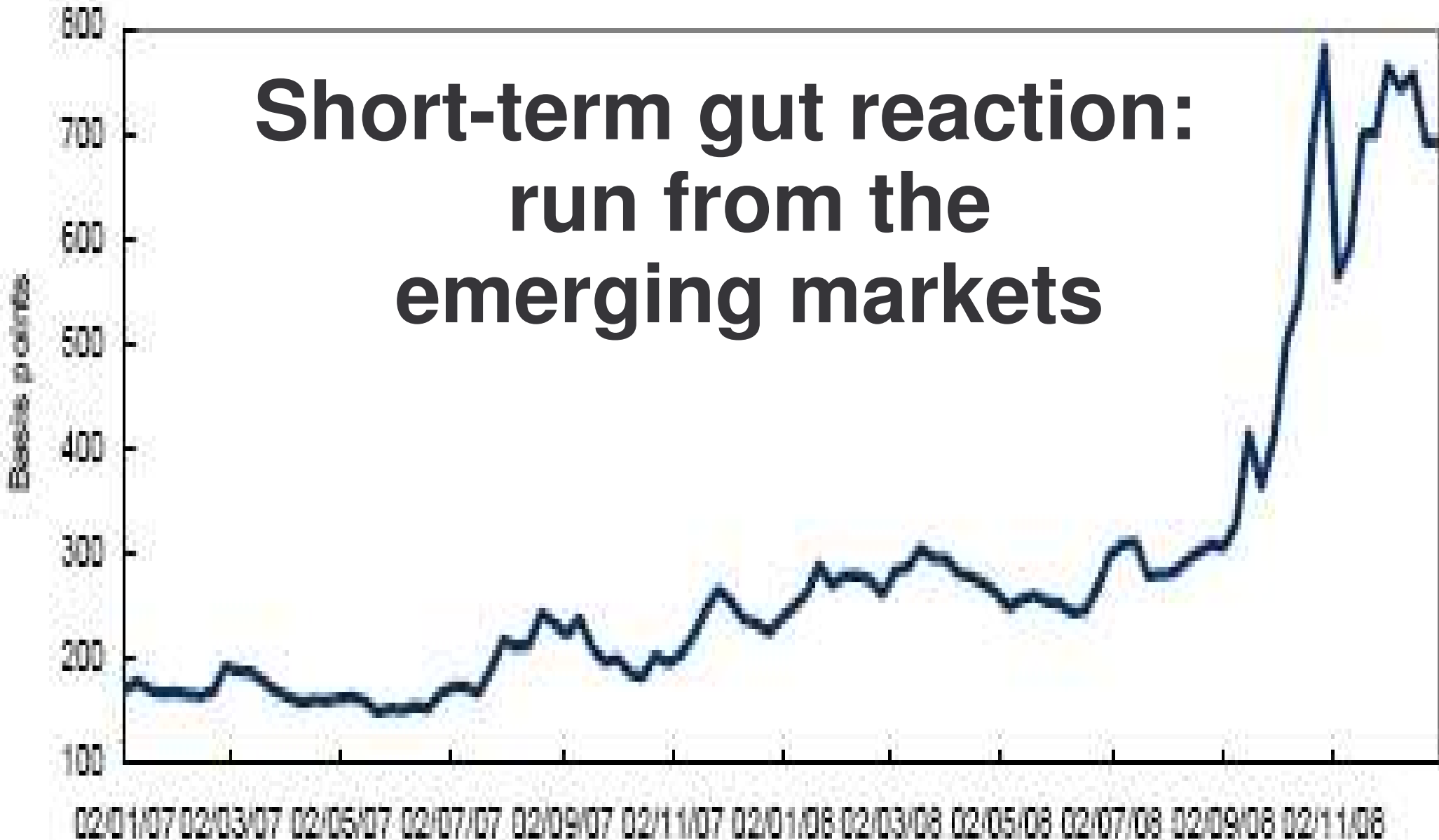
...how long can this madness last?!...



Source: IMF

EMERGING MARKET SPREAD, JANUARY 2007-DECEMBER 2008

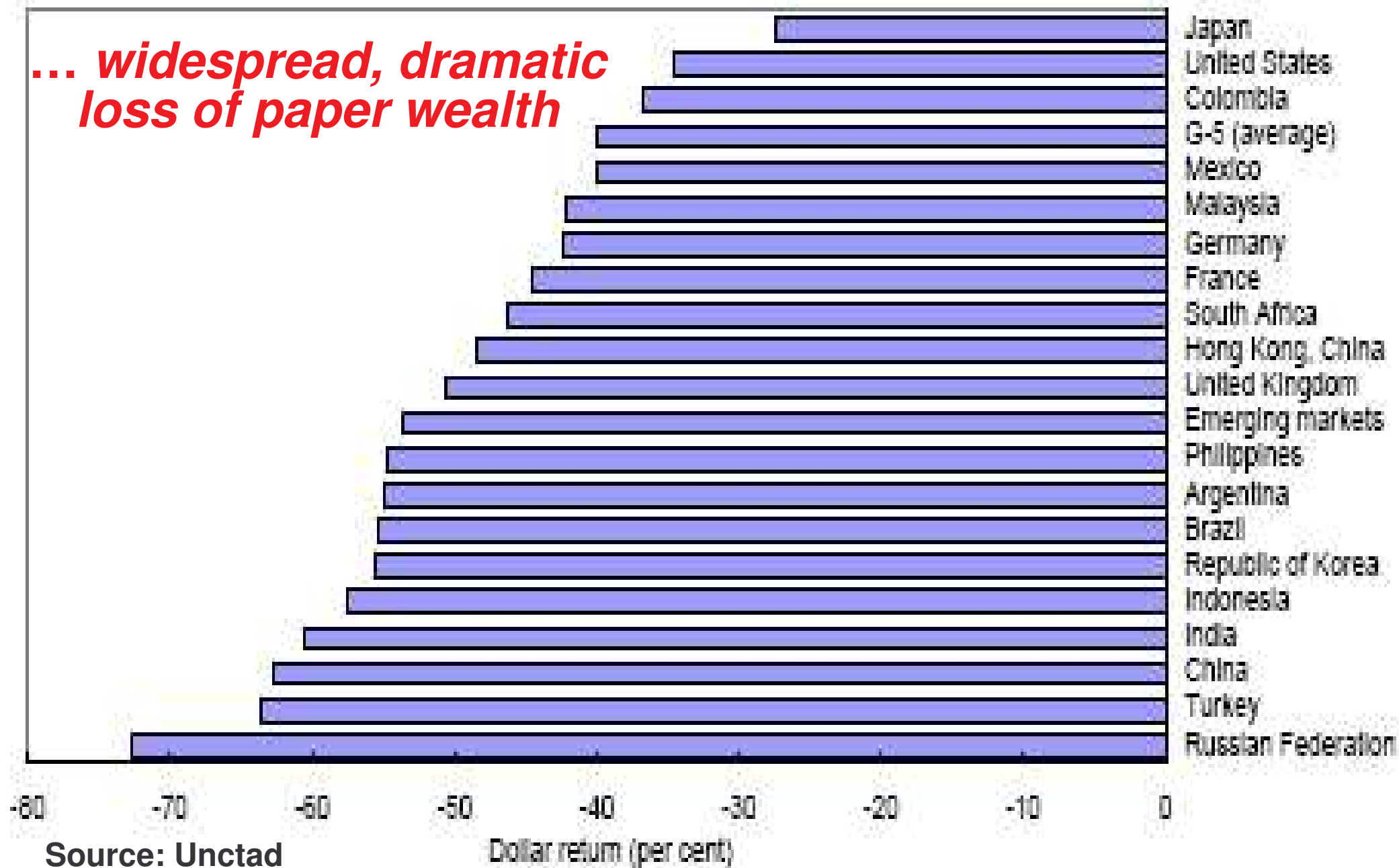
**Short-term gut reaction:
run from the
emerging markets**

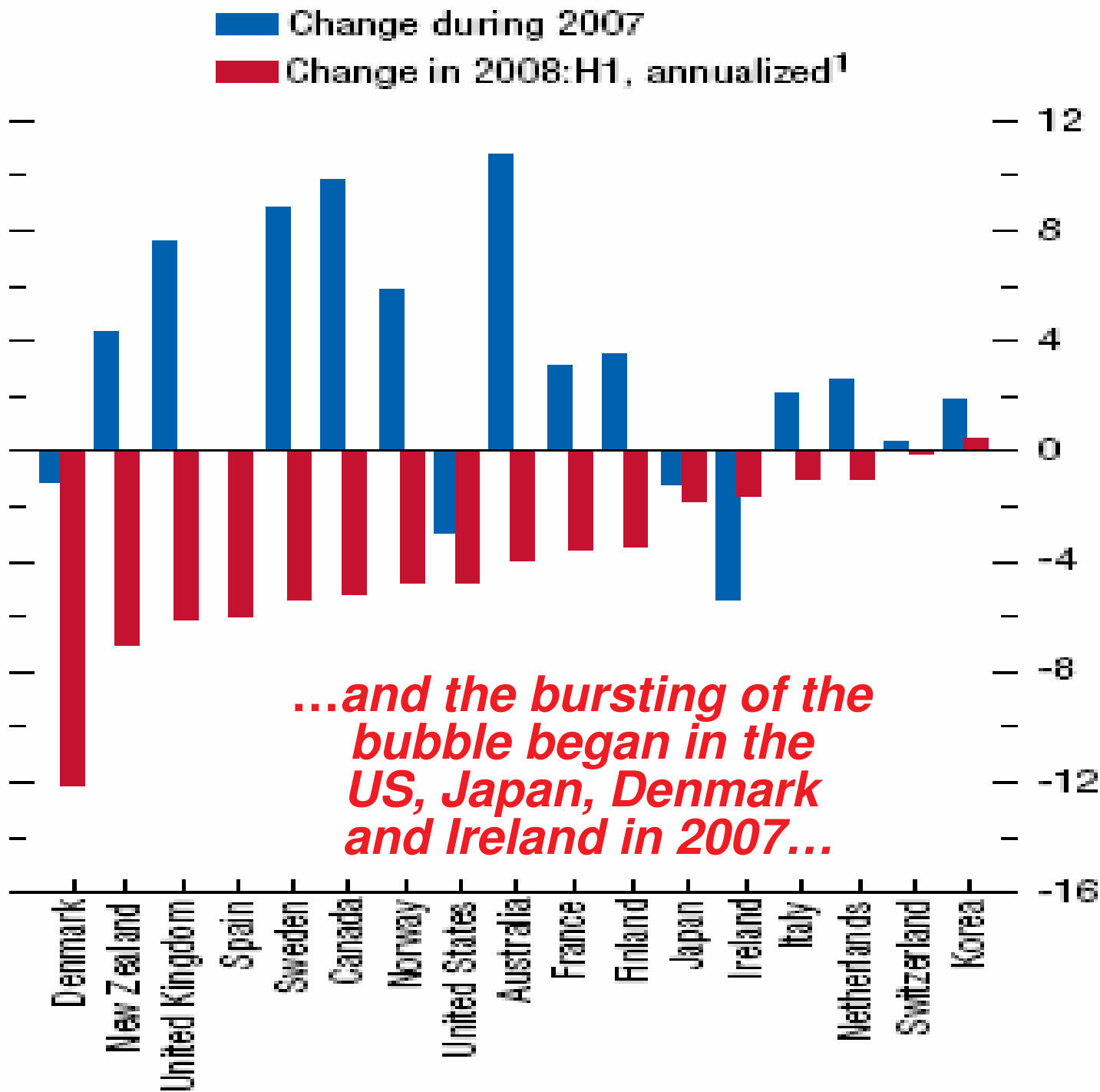


Source: UNCTAD

Stock market volatility: all markets in '08

... widespread, dramatic loss of paper wealth



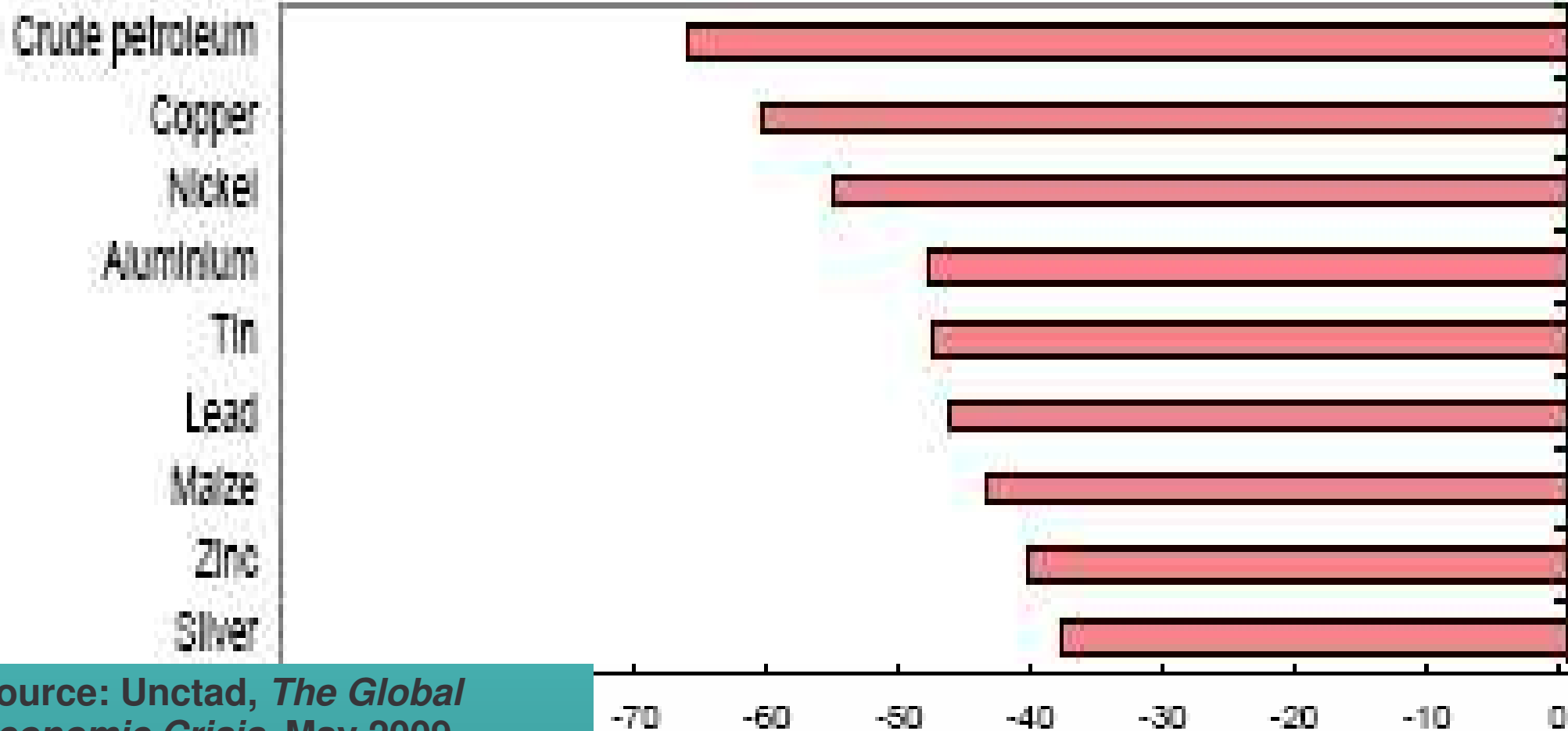


**Housing devaluations:
Change in prices,
Jan 2007-
July 2008**

Source: IMF, *World Economic Outlook*, October 2008

Commodity devaluations: Change in prices, July – December 2008

...particularly devastating for African countries addicted to export-led extractive-industry 'growth'...



Source: Unctad, *The Global Economic Crisis*, May 2009

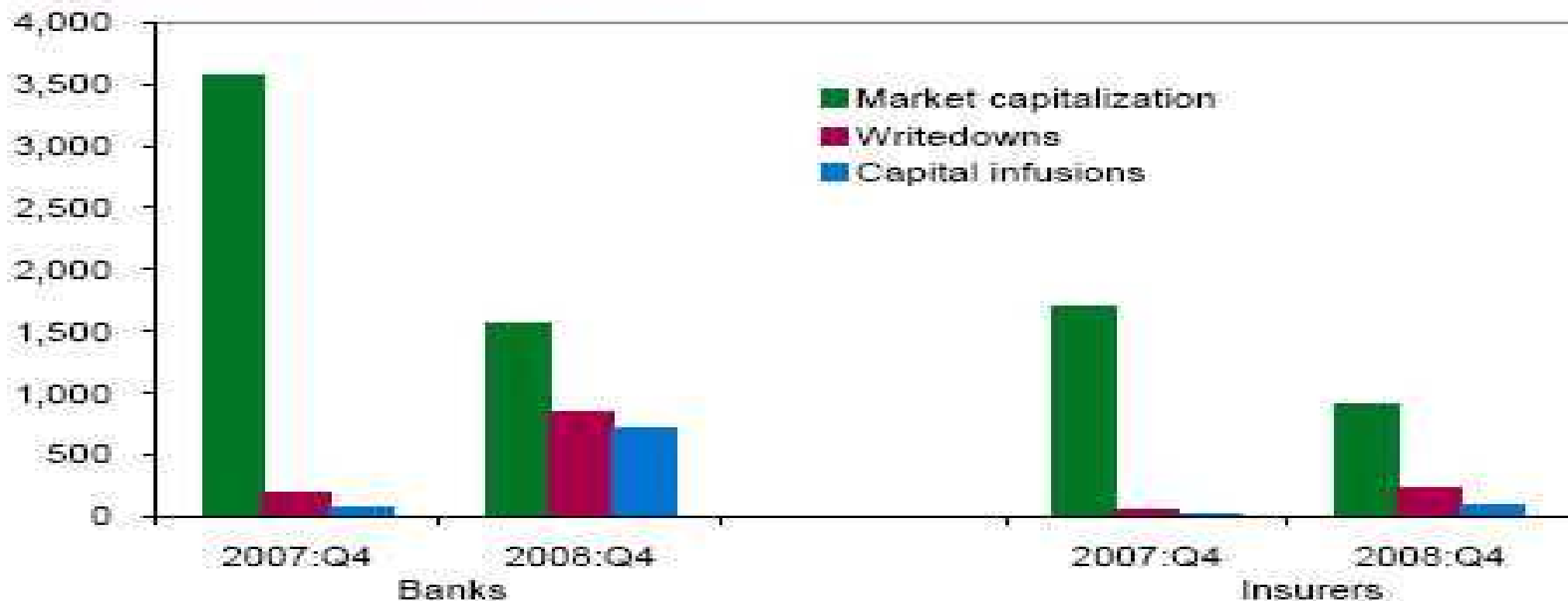
US and European banks, insurers

Devaluation of banks and insurers

...vast financial sector write-offs...

Source: IMF, *Global Financial Stability Report*, April 2009

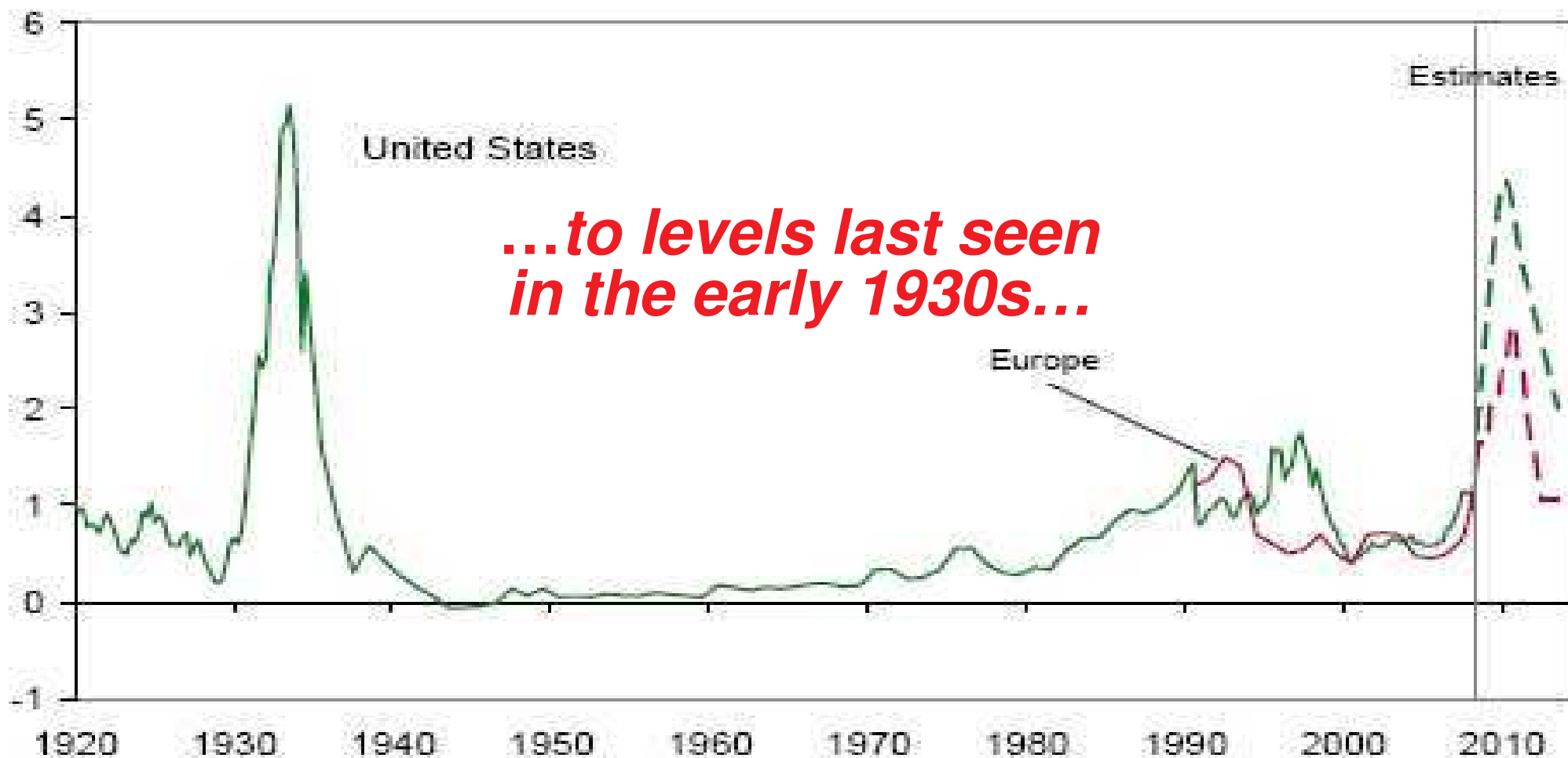
Figure 1.28. U.S. and European Bank and Insurance Company Market Capitalization, Writedowns, and Capital Infusions
(In billions of U.S. dollars, end of period)



US and European banks

Devaluation of commercial loans

Figure 1.30 Commercial Bank Loan Charge-Offs
(In percent of total loans)



Source: IMF staff estimates.

Source: IMF, *Global Financial Stability Report*, April 2009

Long-term state bankruptcy trends

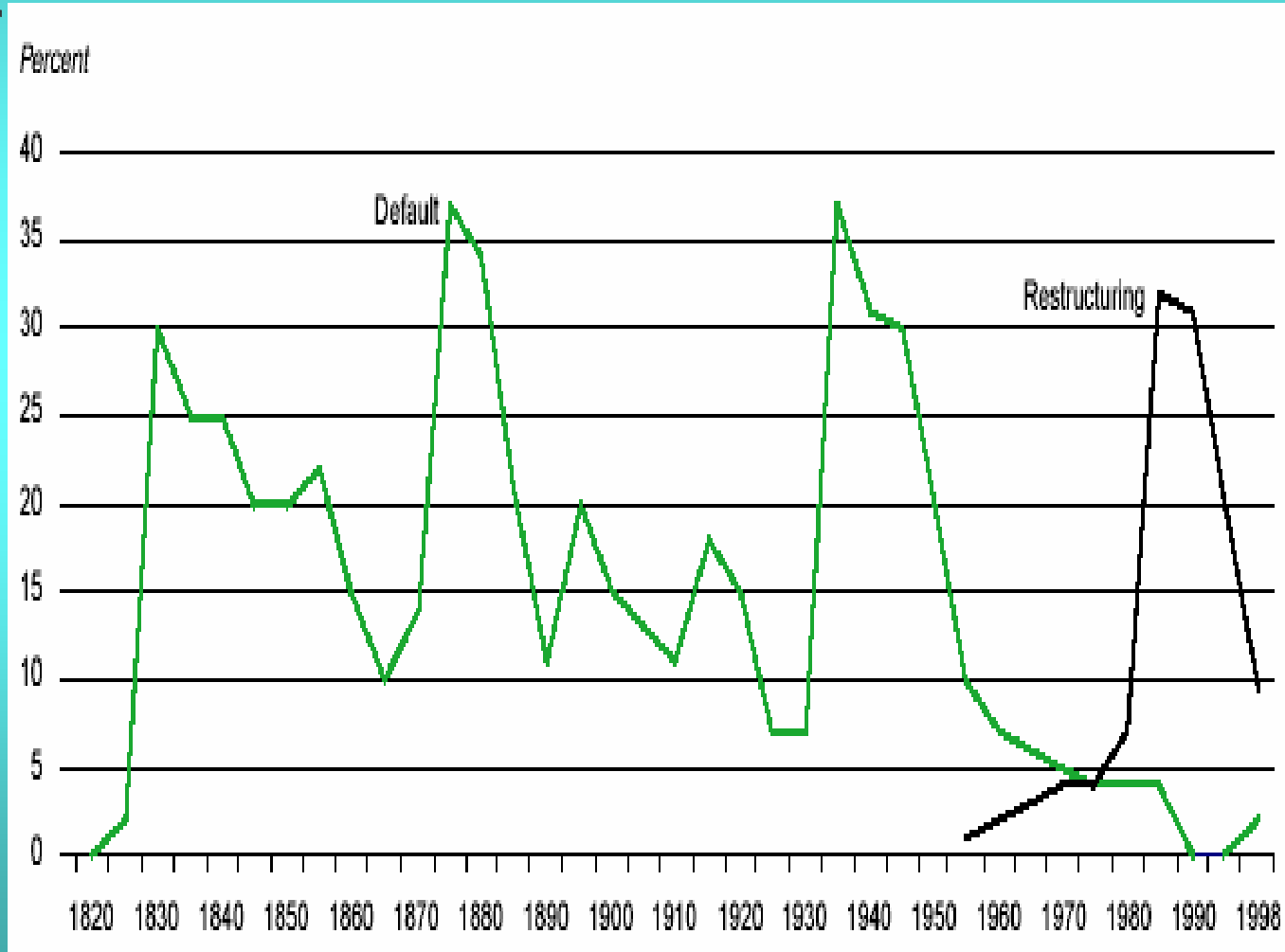
% of countries in default, 1820-1999

⏏ During debt crises of the 1830s, 1880s and 1930s, response was **default**;

⏏ During crises of 1980s-90s, response was **'restructuring'** (IMF/WB bailouts plus structural adjustment)

⏏ Key variable: IMF/WB **centralised creditor power.**

⏏ Source: World Bank (2000), *Global Finance Tables 2000*, Appendix G, Washington.



5)

*Real sector
devaluation of
over-
accumulated
capital?*

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GDP, % change on previous year



World:
Annualised three-month % change



Crash of GDP, industrial production and FDI

... vast implications for the 'real sector' too...

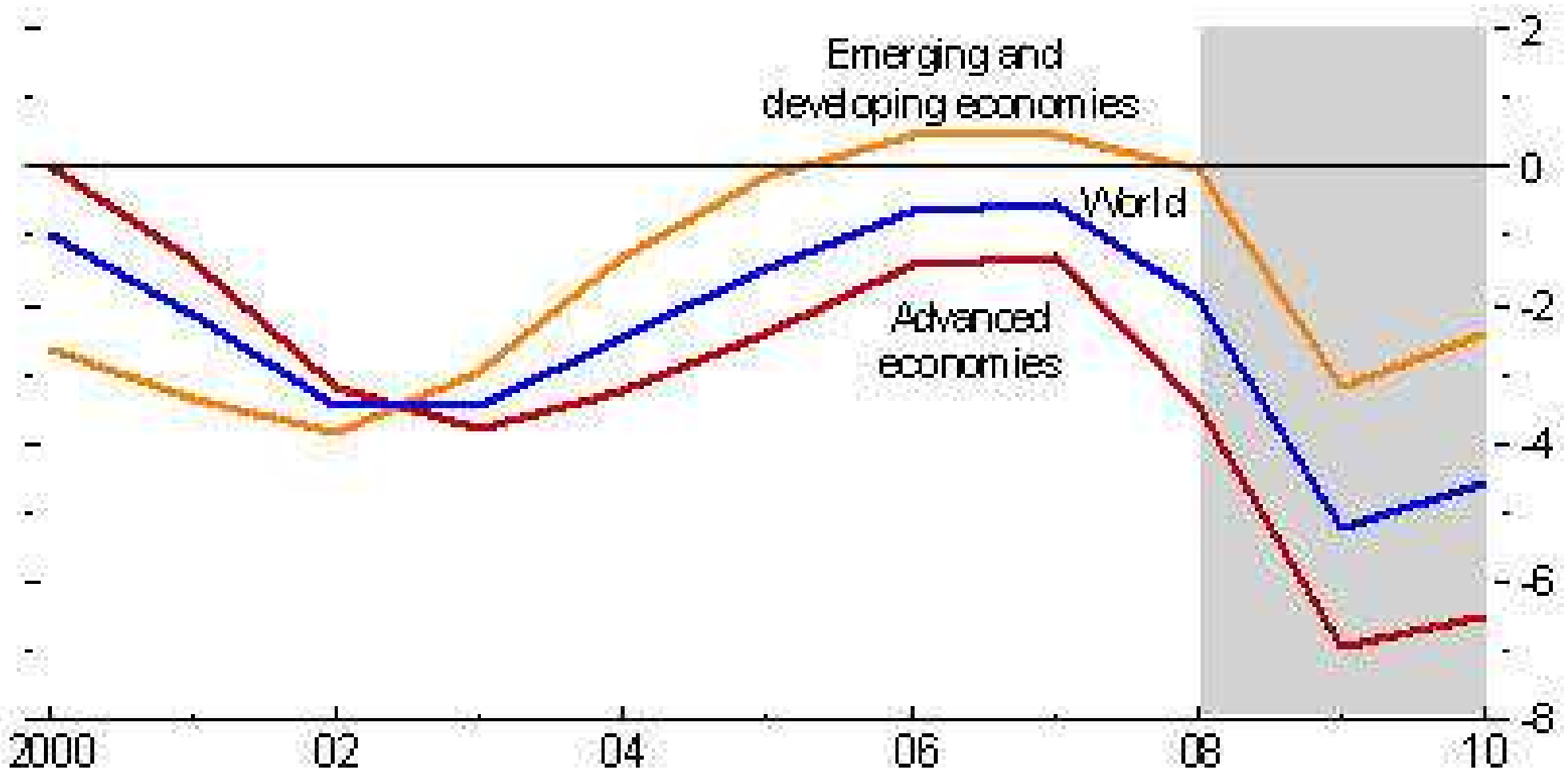
FDI inflows, % change on previous year
2008

Country	Change
Singapore	-57.3
Britain	-51.2
Germany	-48.9
France	-27.7
Japan	-22.7
US	-5.5

Source: The Economist

(Percent of GDP)

Keynes, PLEASE HELP!



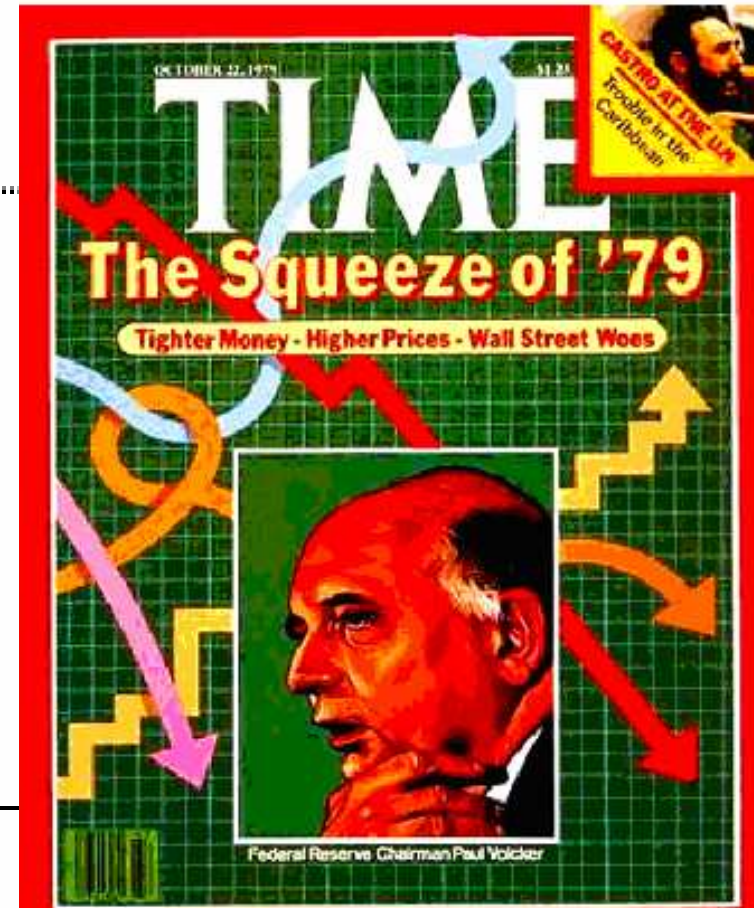
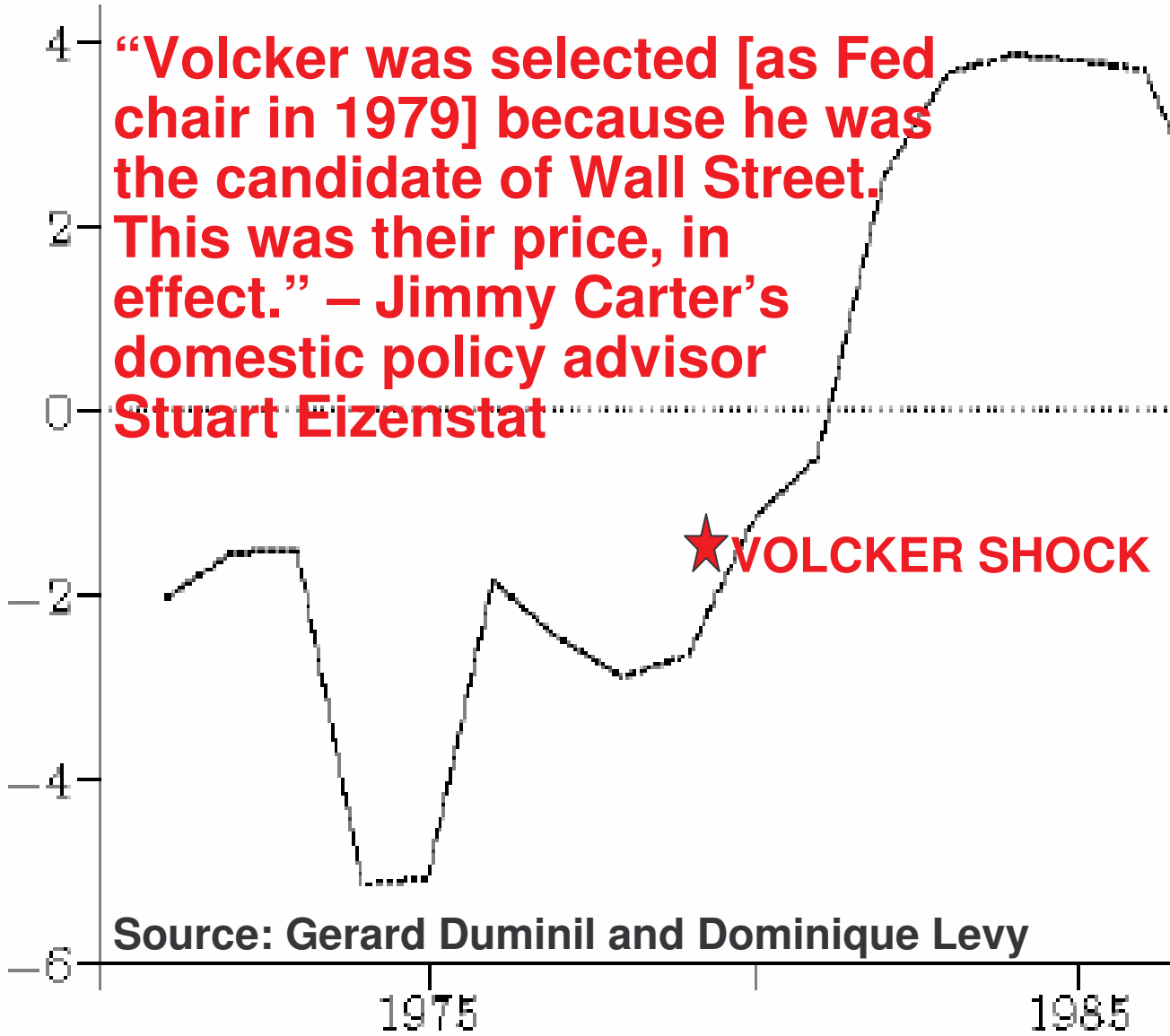
... note that North is allowed to do deficits, but South is discouraged...

Source IMF staff estimates.

**Obama economists Larry Summers,
Tim Geithner, Paul Volcker – no
Keynesians!**



Volcker's record defending finance



6) *South Africa's story: A mirror of the USA*

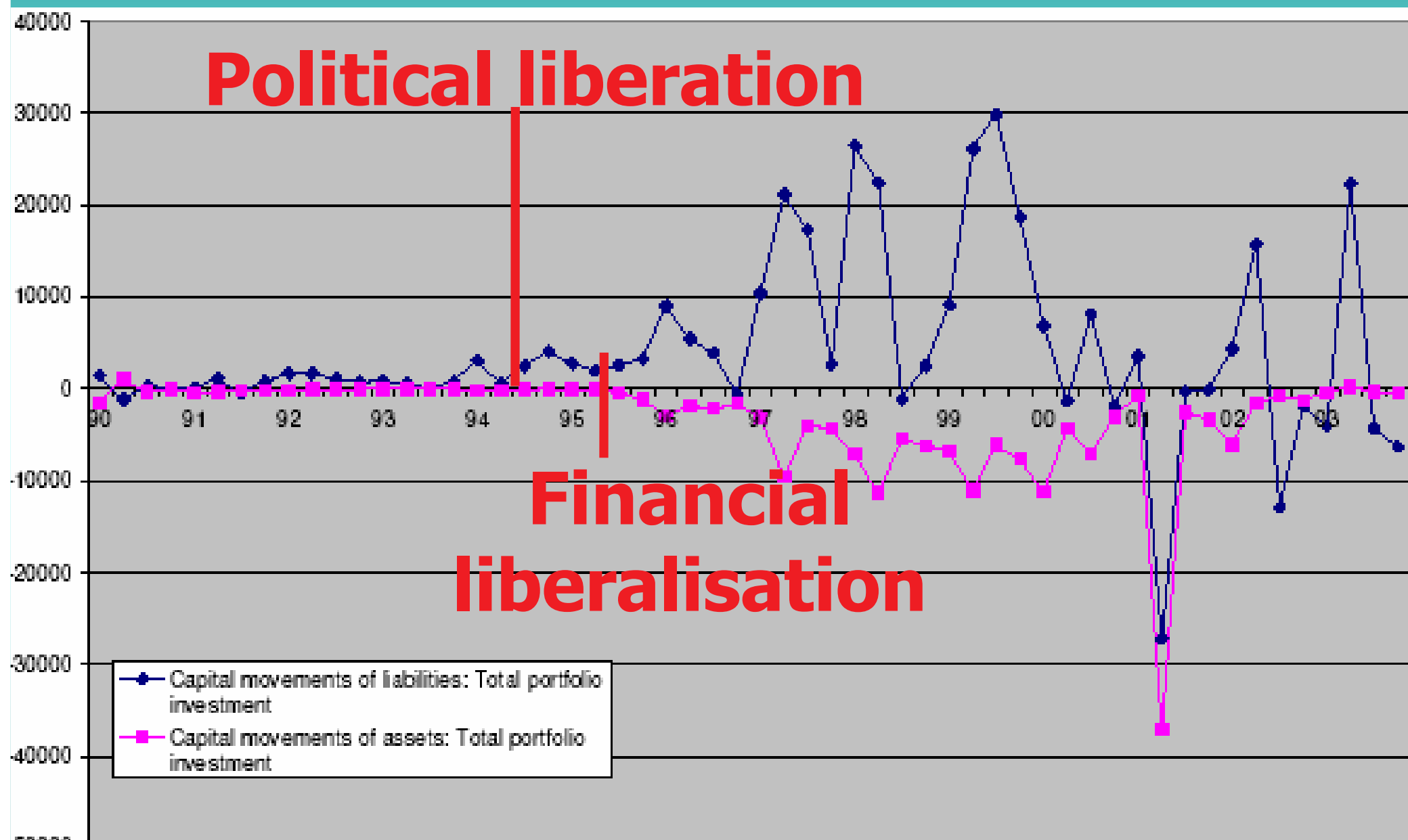
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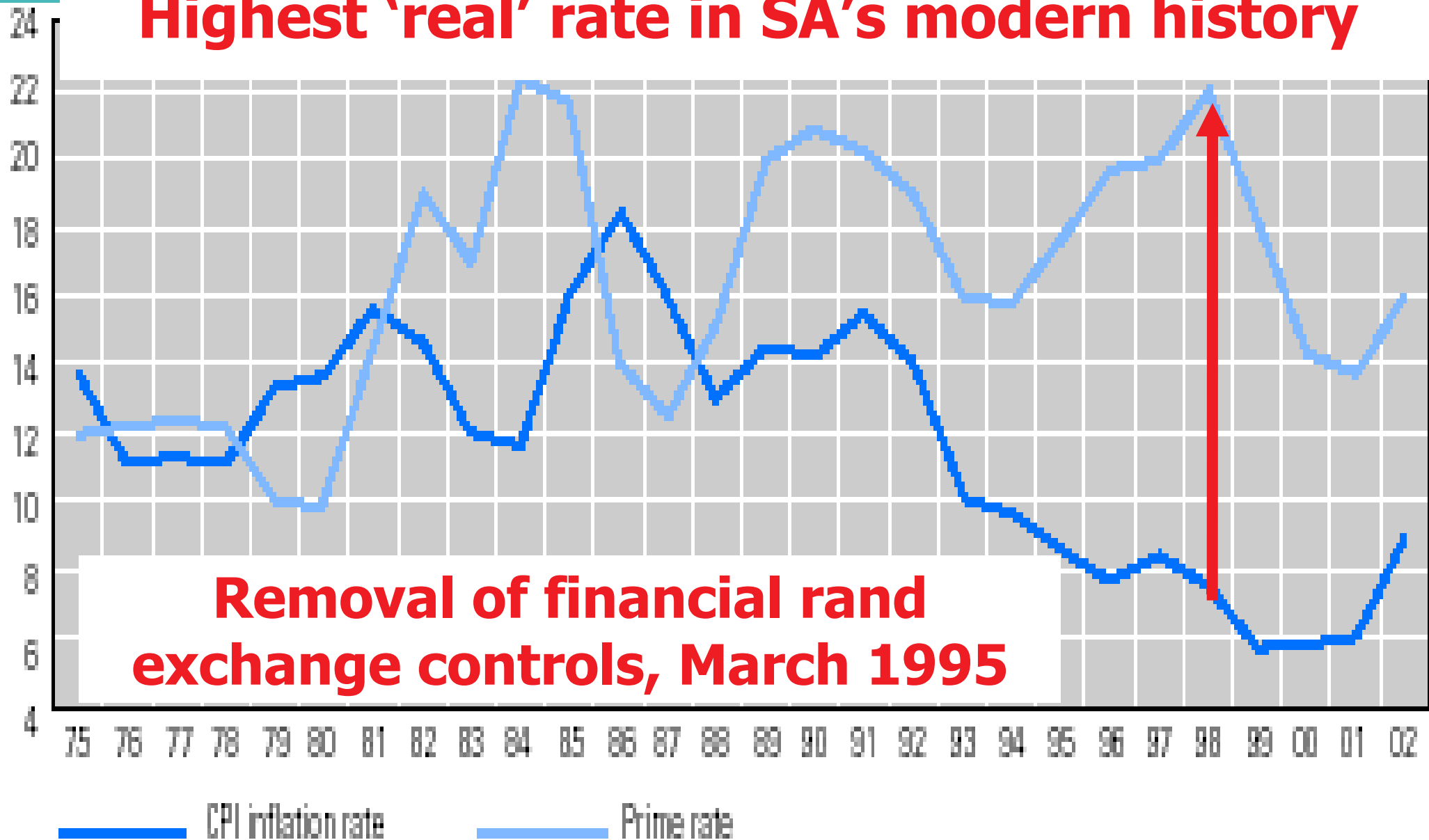
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SA financial volatility and capital flows

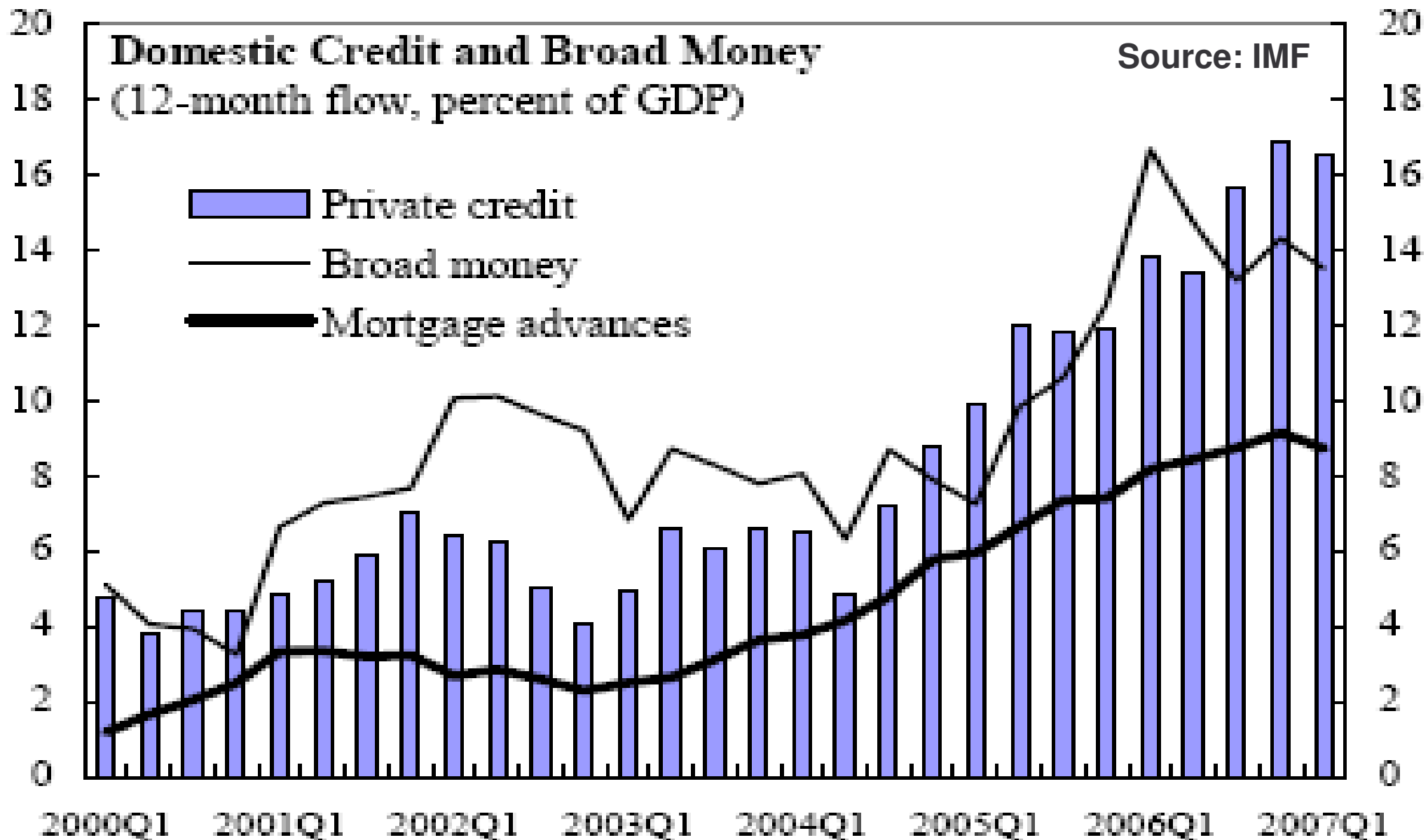


Interest rate reactions

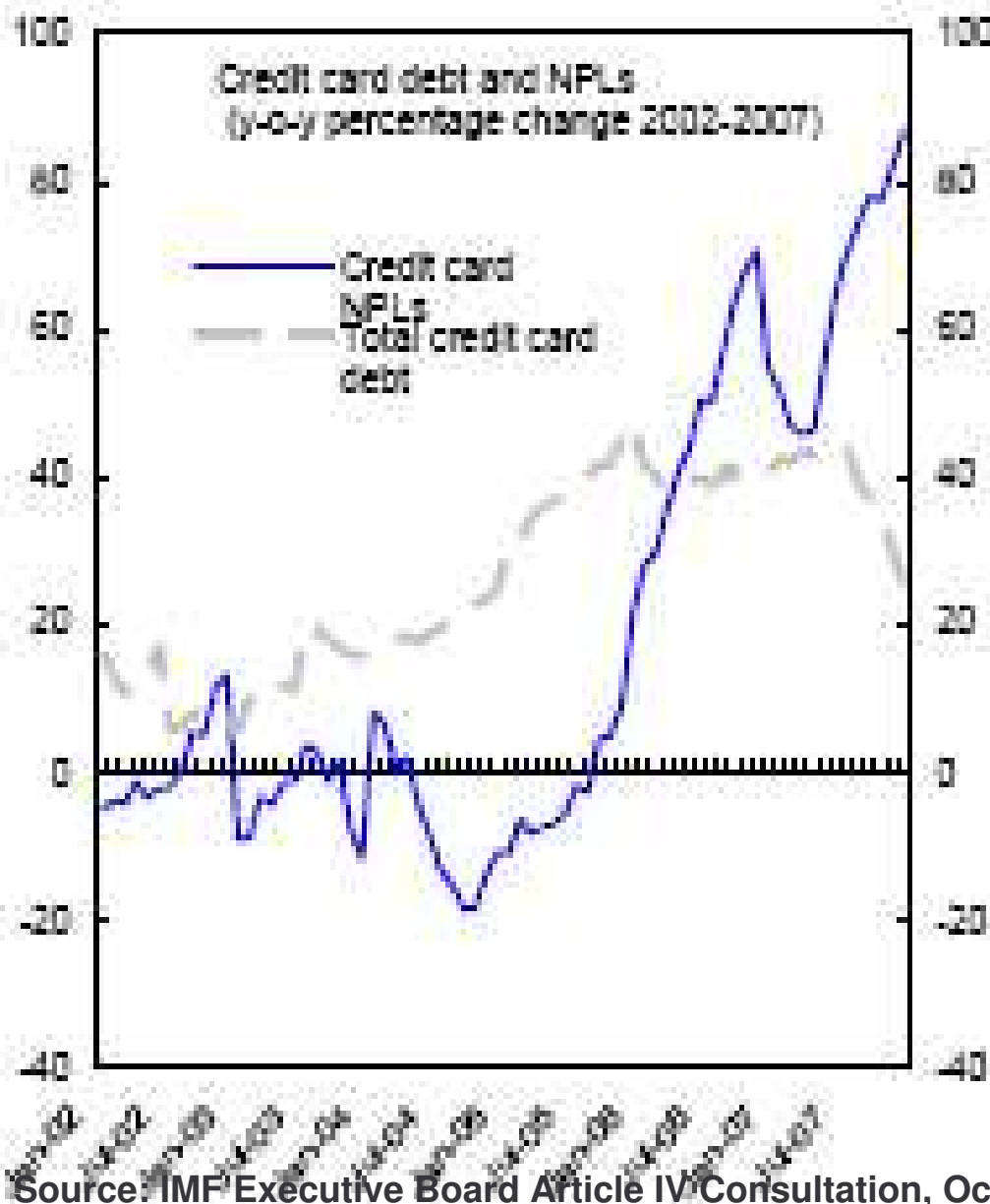
Highest 'real' rate in SA's modern history



SA economy driven by consumers, in turn driven by credit surge

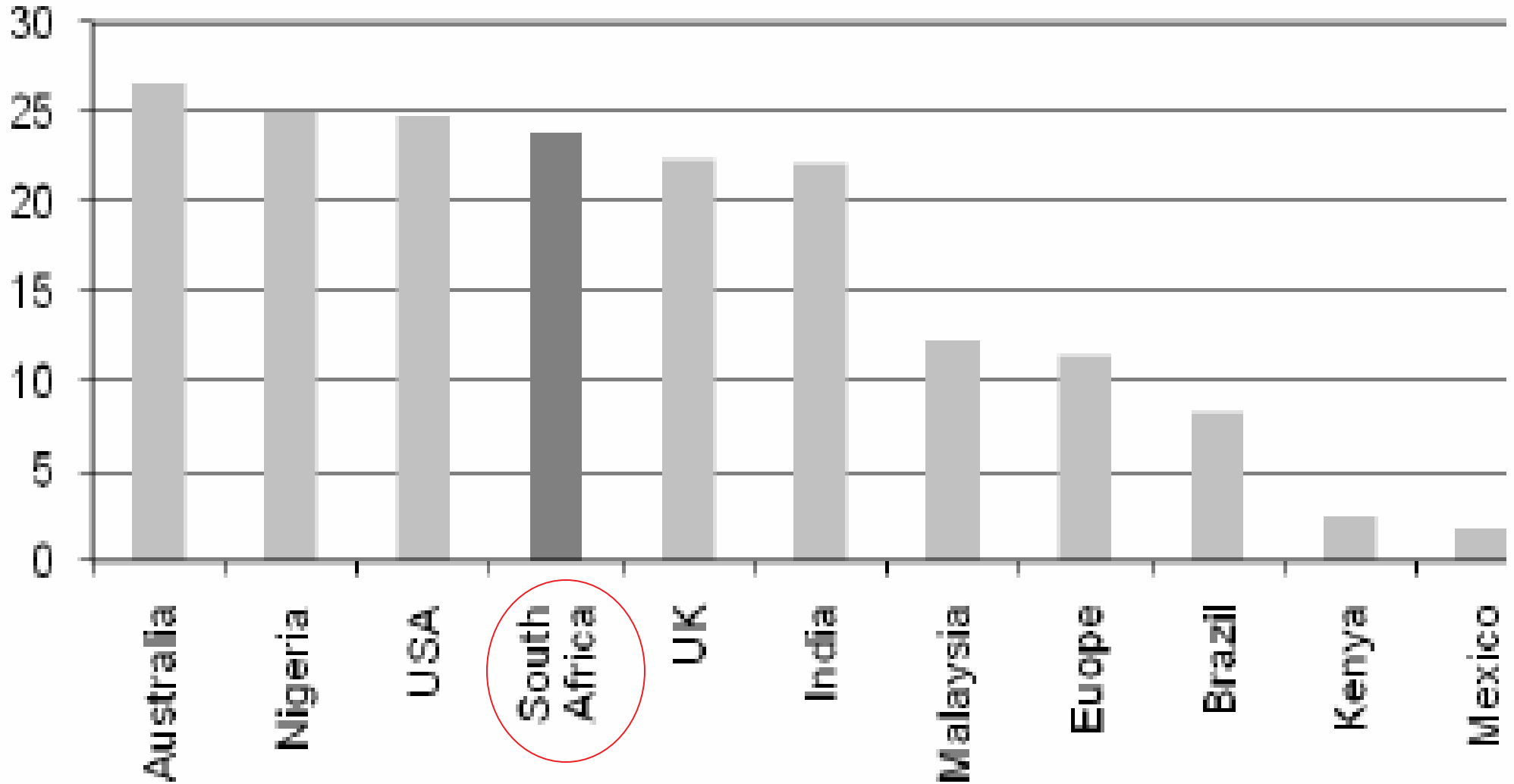


Credit card and home mortgage bond 'non-performing loans' soar since early-2007



Source: IMF Executive Board Article IV Consultation, October 2008

SA banking profits amongst world's highest (return on equity, 1996-2005)



Source: ABSA Bank testimony to Competition Commission

Inequality indices worsen, 1993-2006

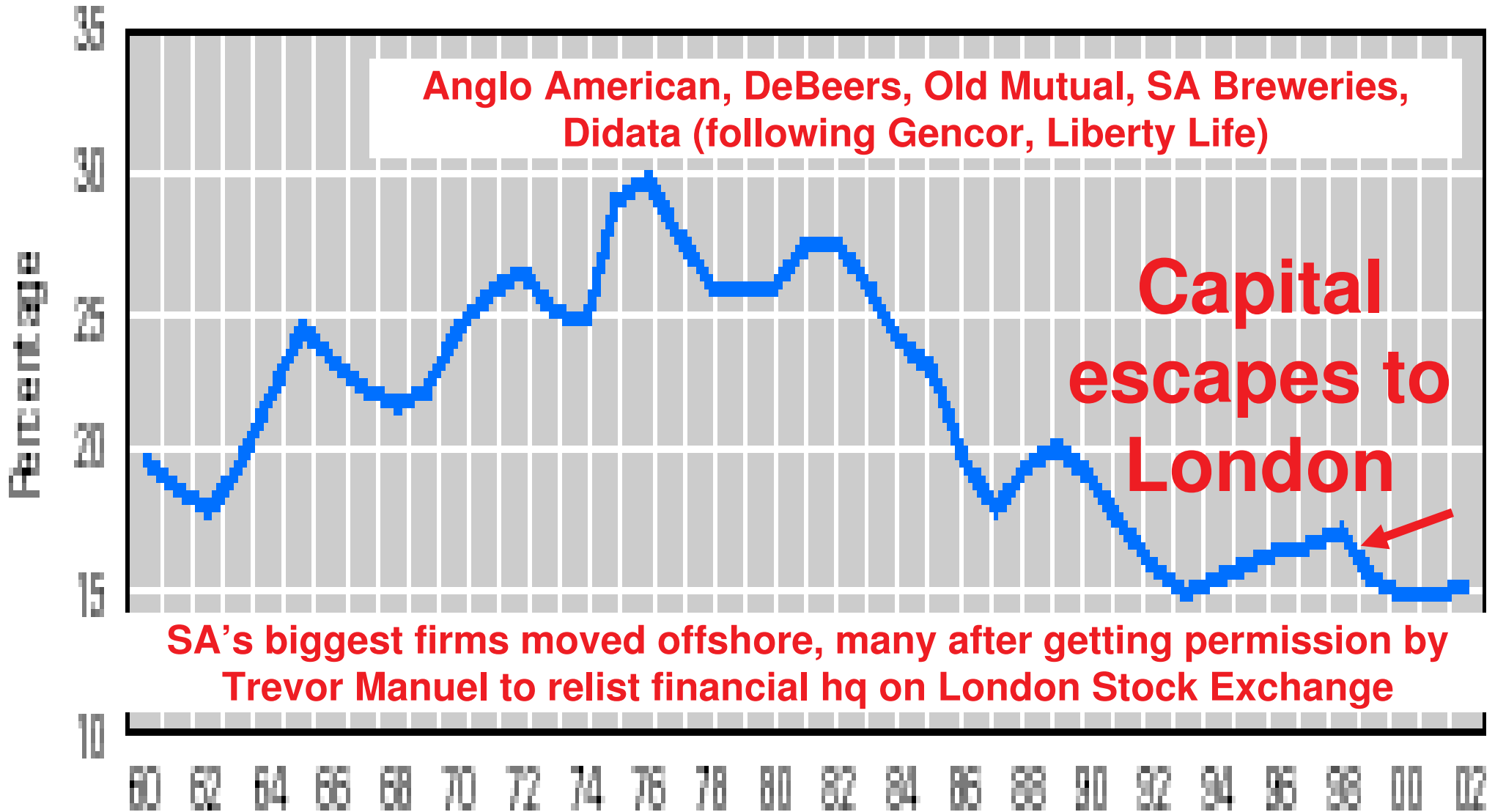
Both Theil and Gini measures rose



	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Gini coefficient	0.672	0.665	0.674	0.678	0.674	0.683	0.685	0.682	0.685	0.670	0.686	0.678	0.683	0.685
Theil: total value	0.899	0.880	0.899	0.918	0.906	0.937	0.938	0.935	0.937	0.921	1.013	0.967	1.012	1.030

1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006

Investment reactions: **capital strike**



Source: South African Reserve Bank

The Economist's house-price indicators

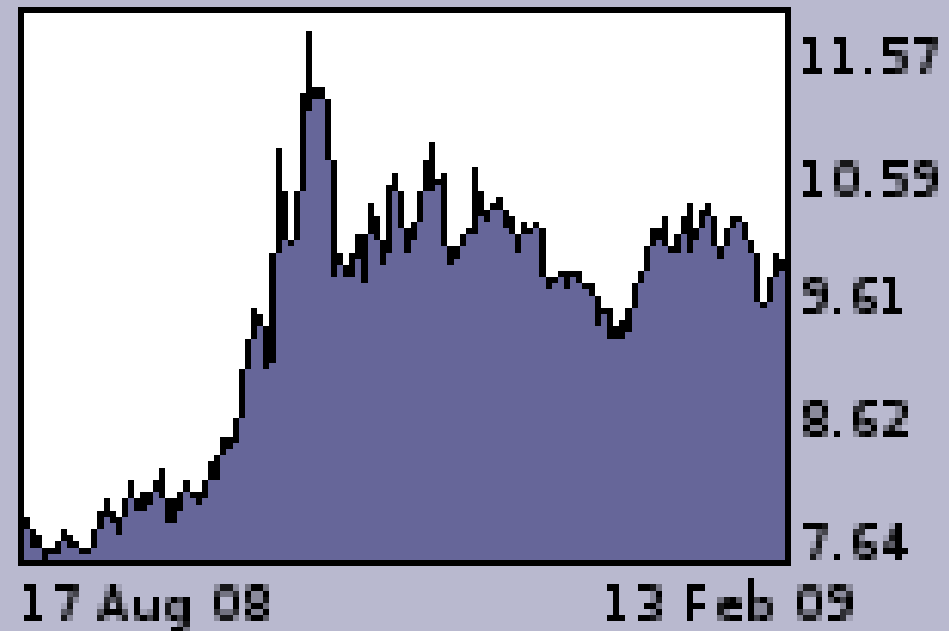
% change

	Latest on a year earlier	Q4 2007	1997- 2008*
Switzerland	3.7	2.0	24
Italy	1.1	5.1	104
France	0.8	5.7	152
China	-0.9	10.2	na
South Africa	-1.3	12.2	389
Sweden	-1.6	11.3	145
Japan	-1.8	-2.8	-33
Canada	-1.9	5.9	66
Germany	-2.5	-4.2	na
Spain	-3.2	4.8	184
Australia	-3.3	14.0	163
United States (OFHEO)	-4.5	0.6	84
Singapore	-4.7	31.2	na
Denmark	-4.9	1.2	119
Netherlands	-5.2	2.8	90
New Zealand	-8.9	8.0	102
Ireland	-9.8	-6.0	193
Hong Kong	-14.0	21.4	-35
Britain	-17.6	7.1	150
United States (Case-Shiller national index)	-18.2	-8.7	66
United States (Case-Shiller ten-city index)	-19.2	-8.3	102

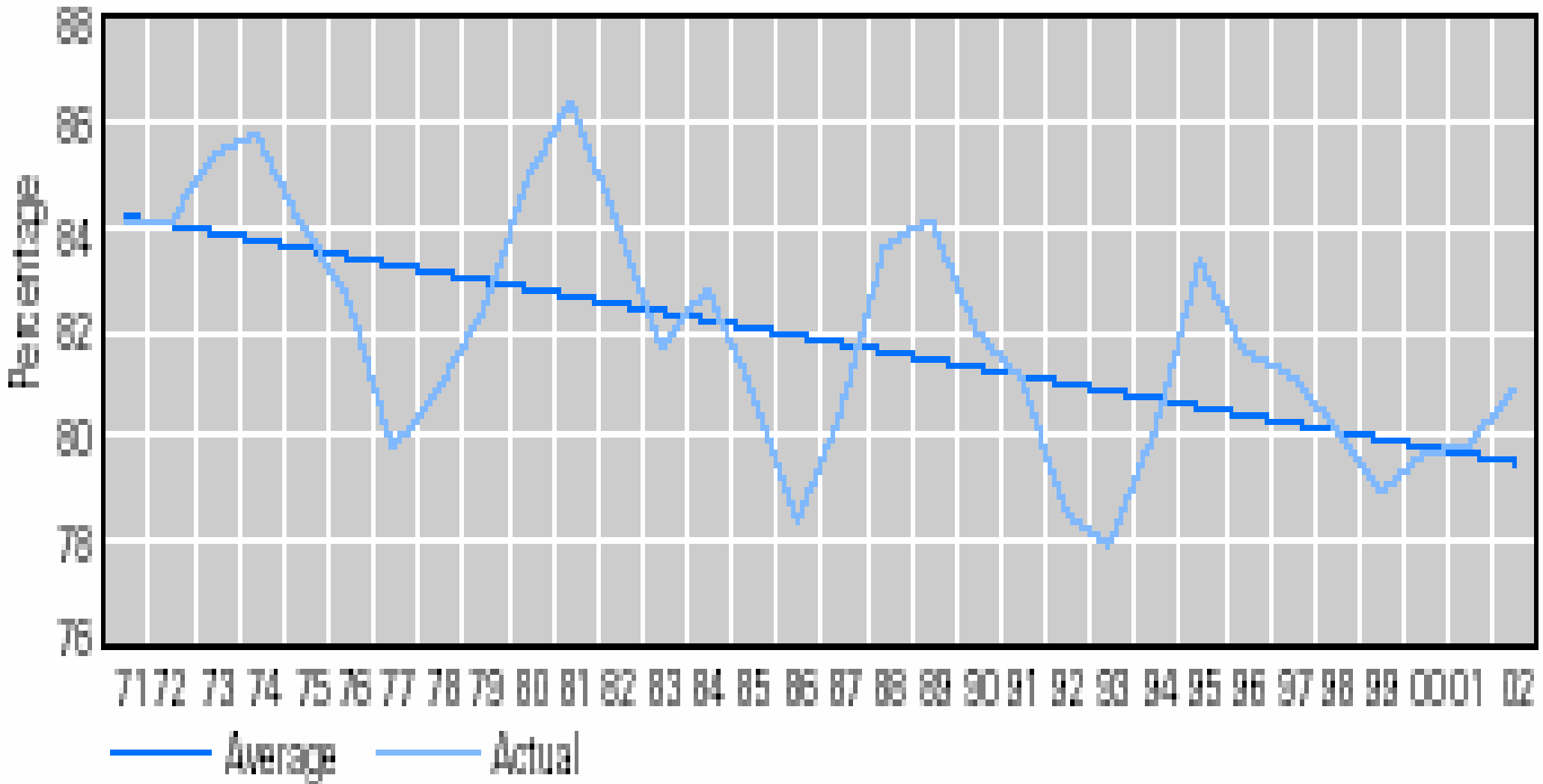
**Biggest property bubble:
389% increase, 1997-2008**



**...fifth currency crash
since 1996...**

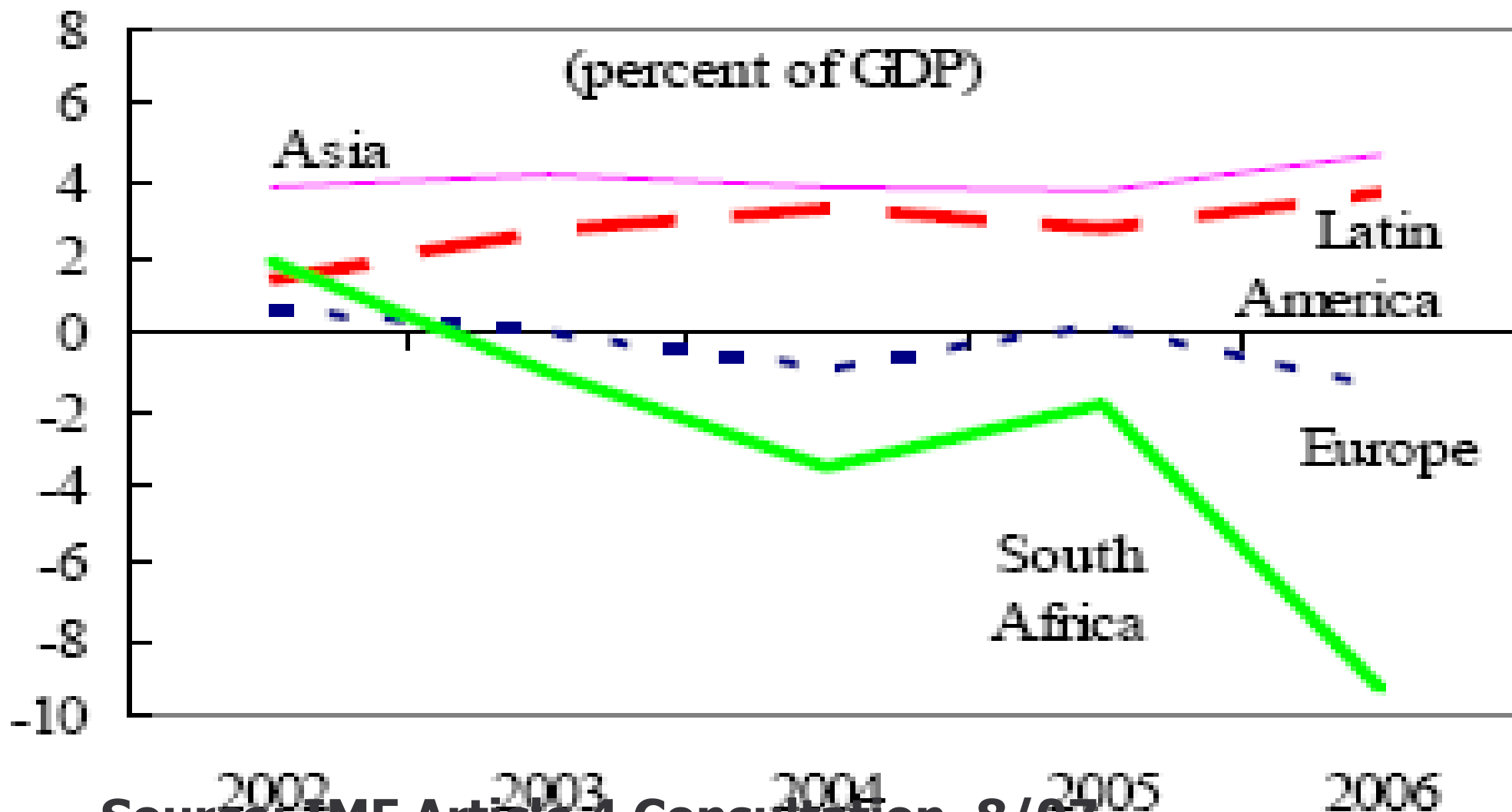


Key factor: **overproduction** (proxy: manufacturing capacity utilisation)



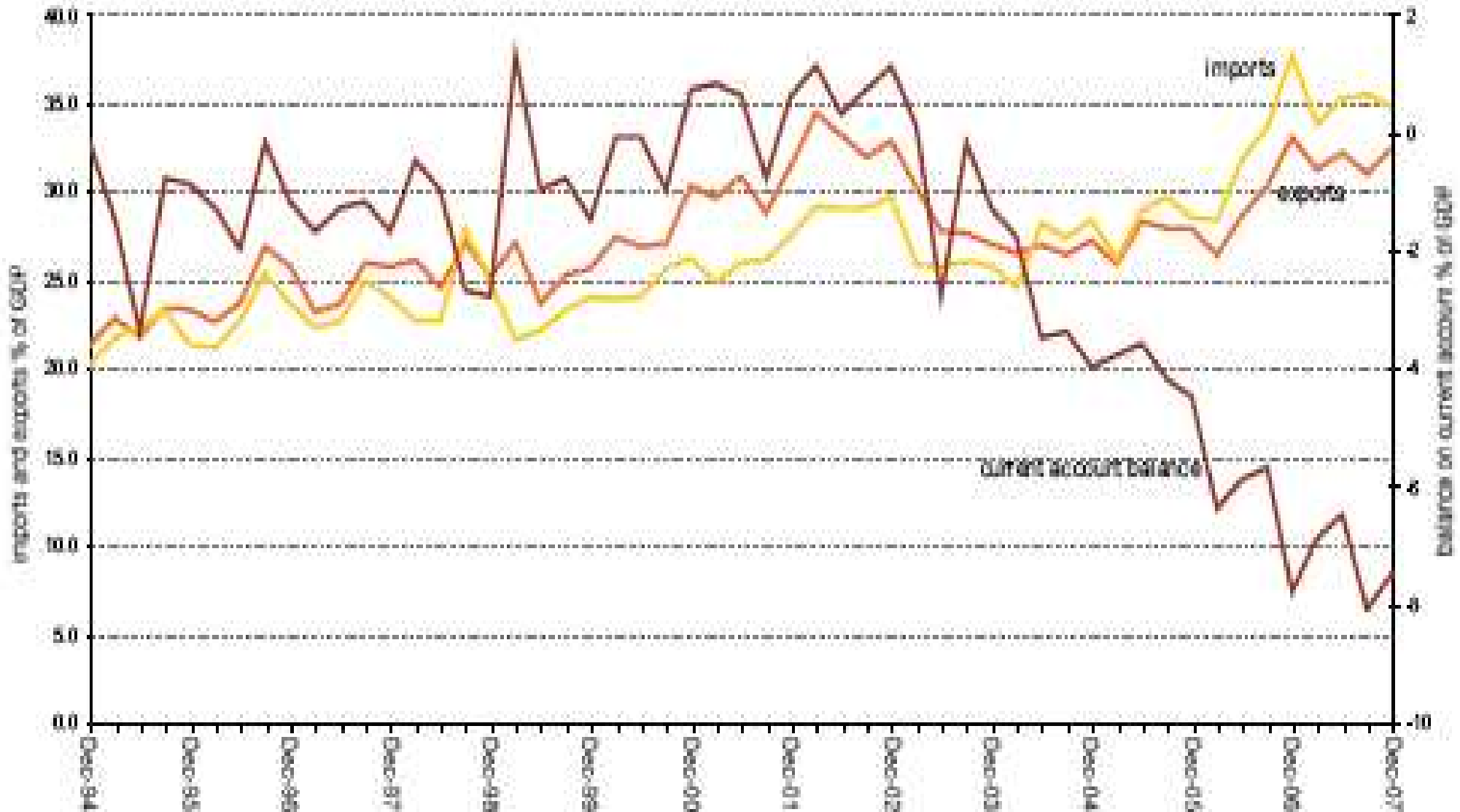
Source: Reserve Bank Database

With high interest rates and high currency, current account deficit now getting serious (emerging markets current account/GDP)



Current account deficit mainly due to dividend/profit/interest outflows

FOREIGN TRADE AND PAYMENTS



SA is world's most risky emerging market, #1 of 17



Country	Current-account as % of GDP*	Short-term debt as % of reserves*	Banks' loan/ deposit ratio	Overall risk ranking†
South Africa	-10.4	81	1.09	17
Hungary	-4.3	79	1.30	16
Poland	-8.0	38	1.03	14 =
South Korea	1.3	102	1.30	14 =
Mexico	-2.5	39	0.93	12 =
Pakistan	-7.8	27	0.99	12 =
Brazil	-1.5	22	1.36	10 =
Turkey	-2.3	70	0.83	10 =
Russia	1.5	28	1.51	9
Argentina	0.2	63	0.74	8
Venezuela	0.8	58	0.75	7
Indonesia	1.2	88	0.62	6
Thailand	0.3	17	0.88	5
India	-2.4	9	0.74	4
Taiwan	7.9	26	0.87	3
Malaysia	11.3	15	0.72	2
China	5.2	7	0.87	1

The Economist, 25 Feb 2009

Sources: HSBC; Economist Intelligence Unit

* 2009 forecast

† Higher score implies higher risk

Result: a wave of social protests (recorded by SA Police Service)

Figure 1: Total Peaceful and Unrest Related Gatherings

