

South Africa roiled by global crisis of capitalism

Iqra Qalam
20 April 2023

The global economic crisis is having a devastating impact on developing economies like South Africa. The slowdown of the economies of South Africa's largest trading partners is wreaking havoc on its own.

One of the main driving forces is the policy of the US Federal Reserve. Over the past 15 years, the Fed has injected massive sums of ultra-cheap money into the financial markets to prevent a stock market collapse and protect the wealth of the global financial oligarchy. The Fed's balance sheet rose from just under \$1 trillion in 2008 to nearly \$ 8.5 trillion currently, with \$3 trillion spent at the beginning of the COVID-19 pandemic.

Now, in the name of "fighting inflation," the Fed has raised interest rates from 0.25 percent in 2022 to the current rate of 5 percent, with the objective of inducing a recession to drive up unemployment and drive down real wages. Talk is now of a further quarter point rise next month.

The US economy, with a gross domestic product of \$23 trillion, is the world's largest but growth is expected to slow to just 0.5 percent in 2023, the lowest rate outside of official recessions in over 40 years. The World Bank has downgraded its growth forecast for the European Union (a \$14.5 trillion economy) to zero, due to ongoing energy supply and food disruptions resulting from the war in the Ukraine, with more monetary policy tightening on the cards.

China, with a gross domestic product of \$17.7 trillion, is also stalling. During previous periods, China's rapid development could buoy the world economy by expanding between 6 percent and 12 percent per year. No longer. China's GDP annual growth rate fell to 2.9 percent in quarter four of 2022. Save for the COVID pandemic induced economic crisis, 2022 saw the weakest pace of growth since the mid-1970s.

The move towards global recession in 2023 is exposing financial fragilities arising from the long period of ultra-

low interest rates, which led investors to search for higher returns regardless of risk. The speculative frenzy decoupled asset prices from the real economy, where value is produced. It ignited a historic borrowing and debt binge, driving stock exchanges into the stratosphere. These risks are now being realized as seen with the collapse of Silicon Valley Bank and Credit-Suisse, with more financial turmoil likely to follow.

South Africa, in comparison to its most important trading partners—China, the European Union, and the United States—is a very small economy, with a gross domestic product of \$419 billion, or about 0.8 percent that of its major trading partners. It is a leaf in the gale-force maelstrom of the global economy.

Following the lead of the US Federal Reserve, the South African Reserve Bank has pushed interest rates from 3.5 percent to its highest level in over 10 years, 7.25 percent. The impact of rising interest rates is leading to an unprecedented collapse of the middle class and the deepening impoverishment of the urban working class and rural poor.

At the World Economic Forum (WEF) conference in January 2023, Oxfam released a report titled "Survival of the Richest". It reveals the largest wealth transfer in human history from the bottom to the top, accelerated by the Fed's pumping of ultra-cheap money into the financial markets. This has resulted in a significant increase in global inequality, with far-reaching consequences.

According to the report, the top one percent globally accumulated approximately \$26 trillion of all new wealth created between 2020 and 2021, while the bottom 90 percent received only \$5 trillion.

The report highlights that billionaire fortunes are increasing at a staggering rate of \$2.7 billion per day. Food and energy companies have more than doubled their profits in 2022.

Meanwhile, the International Labor Organization estimates that globally, “\$337 billion in wages was wiped out, affecting 1.7 billion workers as inflation outpaced wage growth.” This trend is driving up inequality and poverty for most of the world’s population.

South Africa mirrors this trend. The proportion of employed individuals has declined significantly from almost 48 percent in 2008 to approximately 39 percent at present. Real wages are continuing to fall, with Statistics South Africa reporting that food inflation has risen from approximately 3 percent in 2019, to about 13 percent. The poor spend a larger proportion of their income on food, meaning that 13 percent food inflation is driving chronic hunger as the working class cannot afford basic commodities, deepening poverty and destitution.

It is worth asking: How did it come to this? During the period of the “negotiated settlement” which ushered in the change from Apartheid to democracy, the white South African ruling-elite set about creating a thin layer of black bourgeois as its junior partners. The African National Congress (ANC), the Congress of South African Trade Unions (COSATU) and the Stalinist South African Communist Party chose from within their ranks who would become the beneficiaries of Black Economic Empowerment deals (BEE).

ANC operatives, such as now President Cyril Ramaphosa, who was a leader of the National Union of Mineworkers (NUM), set about demobilizing the most militant section of the working class. Ramaphosa received billions for services rendered, including in the mining sector. But by 2008 there were no more major BEE deals to be had, triggering a political crisis in the ANC that ultimately led to the removal of President Thabo Mbeki and his replacement with Jacob Zuma.

Under the Zuma presidency, the ANC’s priorities became increasingly apparent. A prominent ANC leader and convicted fraudster, Tony Yengeni, infamously stated, “We did not join the struggle to be poor!” Without BEE deals to be had, the venal ANC enriched themselves by looting state coffers in a process referred to as State Capture.

The scale of the money stolen is estimated at R1.5-trillion (US\$83 billion), which is equivalent to nearly 120 percent of the South African Revenue Service’s tax revenue collection in 2019. The main target of ANC looting was the power utility, Eskom. Saturated with fraud and neglect, it ushered in the worst load shedding blackouts in the country’s history. To bring its plans into effect, lumpen elements linked to the ANC

actively sabotaged power stations, to enrich themselves, with the ex-CEO of Eskom estimating that R1-billion (US\$55 million) is looted each month.

The current state of the power utility is amplifying the magnitude of the global economic crisis on the economy. The effects of load shedding are contributing to decreases in production, increasing unemployment, and growing poverty. The South African Reserve Bank has estimated that the load shedding crisis could cost as much as R899 million (US\$50 million) per day.

The economic impact of this crisis cannot be overstated, with the South African Reserve Bank revising its growth forecast for the year from 1.1 percent to 0.3 percent. Reserve Bank Governor Lesetja Kganyago has warned that the ongoing power disruptions could result in a growth reduction of up to 2 percent, further driving up high levels of unemployment and poverty.

South Africa is the most unequal county in the world according to the World Inequality Report 2022, with the top one percent possessing 22 percent of national income, while the bottom 50 percent only have access to 5.5 percent of the national income. This trend is set to continue and become even more extreme.

Nelson Mandela’s promise of “a better life for all” is seen by the broad masses as a fraud, demonstrating that the national liberation movement is organically incapable of fulfilling the most basic needs and aspirations of the working class and rural poor. There is an entire generation born nearly 30 years after the end of Apartheid that knows no life other than under the ANC. In opposition to growing poverty and destitution, the South African working class is once again coming into struggle. However, no credence can be given to any of the capitalist political parties, including their pseudo-left adjuncts.

As the global political and economic crisis intensifies, the South African working class, students and youth must orient towards the building the International Committee of the Fourth International, in the fight for international socialism. Only when global economic production is directed towards meeting human needs and not private profit is it possible to achieve a better life for all.



To contact the WSWS and the
Socialist Equality Party visit:

wsws.org/contact