

## Cato Institute Policy Analysis No. 81: Better Now Than Never: Economic and Social Reforms in South Africa

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### Executive Summary

It requires some courage to write optimistically about the prospects for peaceful change in South Africa, for to do so is to take a decidedly unfashionable viewpoint. No doubt the present situation there remains grave. Uncompromising protest by a frustrated black majority has met with an equally uncompromising crackdown on the part of the government's security forces, resulting in hundreds of black deaths, thousands of summary detentions, and a suspension of civil liberties and basic rights that makes a mockery of Pretoria's long-standing claim to be a civilized nation. The South African economy, whose deterioration antedated the outbreak of unrest in the late summer of 1984, has suffered further as the violence takes its natural toll on productivity and commercial stability. Levels of unemployment and inflation have seen steep turns for the worse, which as a matter of course translate into greater black despair and more violence, the long-term solution for which can only be majority rule.

Indeed, as many observers, both within South Africa and around the world, have rightly hoped, these developments mark the beginning of the end of white political dominance in South Africa. Majority rule has long been inevitable, but only recently has that object moved into the realm of the near future. Now too the nature of this transition is taking form: unrest, of varying degrees of intensity, will gradually wear away at the determination of whites to govern, probably culminating in the sort of measured capitulation that characterized the transfer of power in Zimbabwe. Admittedly, the position of whites in South Africa is stronger than it was in Zimbabwe and there is a more tenacious determination to retain dominance. The Afrikaners will not surrender control without a fight--one that will take the lives of many more black South Africans, and an increasing number of white ones. Nevertheless, it seems unlikely that they will cling indefinitely to an untenable cause. Most of them, after all, have nowhere to go, and they have simply too much to lose by dragging out human and material destruction beyond anybody's conceivable interests.

The process will be drawn out over the next decade or longer and will, at least ostensibly, occur almost wholly on the stage of politics and ideology against a backdrop of physical force. Black opposition and resistance elements have been rebuffed and suppressed too harshly and for too long for it to occur apolitically. The leaders of the African National Congress, the United Democratic Front, the black workers' unions, and most other groups will not acknowledge as worthy of acclaim any action by the Pretoria government save the final turnover of political power. Reforms in social and economic spheres are routinely dismissed as forlorn attempts to coopt black South Africa, to buy time for minority rule. This dismissal is perhaps a fair, if incomplete, characterization of government initiatives in these areas; it is, moreover, strategically critical to the long-term objective of these groups to focus on their gaining political power.

Apartheid unquestionably constitutes an affront to the core values of civilization, and opponents are justified in working for its prompt demise. Standing alone, however, the abolition of apartheid is an incomplete and inadequate objective. The advent of majority rule in South Africa does not by itself guarantee a benign future for that nation. The eventual political structure is an important concern, but an equally vital question is how a society based upon respect for individual rights (including economic liberties) can be forged during the transition to majority rule. Most Western critics of apartheid have thus far failed to address this crucial issue. Such an omission is especially unfortunate since the ultimate shape of South Africa's future may be determined as much in the economic and social realm as in the political arena.

### **Underlying Reasons for Hope**

Although negotiation, compromise, and settlement is an increasingly remote possibility in South Africa, there are reasons for optimism. Two phenomena, both almost uniformly overlooked in the current climate of utter condemnation, bolster such a perspective. The first is a largely impressionistic observation for which there is scant statistical, but much anecdotal, support: A surprising amount of personal goodwill and understanding exists among the races in South Africa, and it should survive anything short of the most cataclysmic political upheaval.[1] There is a recognition, by all save the more extreme elements, of the necessity for racial accommodation. The whites understand that black aspirations will have to be met in some form; blacks in turn understand that the whites are in South Africa to stay and that they will make an essential contribution to any post-transitional society. Granted, there is always the danger that protracted violence will erode these attitudes to the point that they are of less practical significance, but the example of Zimbabwe, which is now actually witnessing a modest net gain in its white population, would seem to discount such fears. While some rhetorical bitterness will linger through the early days of black rule, and economic reprisals are possible, a reign of terror against whites is unlikely.

The second, and more concrete, proposition to support a prediction of long-term South African prosperity hinges on the long-awaited implementation of numerous reforms outside the political arena. At the same time as the Nationalist regime has ruthlessly suppressed unrest in the black townships and severely restricted civil liberties with sweeping emergency measures, it has instituted equally sweeping reforms which would, in a more peaceful context, have been heralded as important steps toward the material and psychological betterment of the black majority, if not toward majority rule. These reforms include repeal of many laws traditionally considered at the core of social and economic apartheid. Since they also include the easing of non-racial economic regulations, this constructive government package will make day-to-day living in what remains of an abhorrent system easier to bear. It will result in material advancement for the black population, assuming a certain minimum level of overall growth for the South African economy, by allowing blacks for the first time since the consolidation of white rule to assert their right to basic economic opportunity. It will diminish a still-wide gap in white and black incomes and lifestyles, and will mark increased social and workplace contact among the races, even in the face of broadened conflict in the political sphere. By enabling blacks to acquire a stake in an economy based on private property rights, such reforms should decrease pressure on a subsequent majority government to embrace ill- advised anti-capitalist remedies. Finally, racial cooperation may increase, perhaps resulting in a less chaotic transitional period.

A question does remain whether the government has begun these innovations too late for them to make any real difference before black rule. But one has only to compare it with a scenario of political repression unaccompanied by economic reform. That combination would present a future black government with an impoverished as well as a racially bitter populace. Reforms may enable a majority government to enjoy a broader constituency already accustomed to holding the economic, if not the political, reins of South African society. Moreover, that future regime will have fewer bureaucratic weapons to turn against the South African economy if they are destroyed before it comes to power.

It is not surprising that the reforms have met with a reception just short of scorn both within the internal black opposition and among international observers. First of all, radical resistance elements are unwilling to congratulate the government on anything, for to do so would only play into the hands of the Botha regime by weakening sources of opposition. Secondly, the reforms have only come in the midst of popular unrest (most have been instituted since mid-1984). Indeed, the timing of reform announcements has been so mismanaged that they have occasionally fallen on the very day as announcements imposing harsh emergency measures. This creates the impression that these initiatives are

merely a reaction to the unrest, and that they represent little more than a white attempt to stave off further protest. Consequently, what might otherwise be considered startling progressive action by a National Party regime becomes simply another element in its strategy to retain power as long as possible.

There is justice to both viewpoints. A government that metes out naked physical oppression scarcely deserves applause for a willingness to enact economic and social reforms. Nevertheless, one must be cognizant of the reforms and their positive potential for South African society.[2] Those in the democratic West who want to facilitate a benign outcome to the current political struggle should encourage the acceleration of such changes, not merely condemn them for being incomplete and belated.

### **Missed Opportunities**

It is tragic that Pretoria has waited so long on the question of economic reform. The government has stubbornly resisted change and is now paying the price. For several decades, moderate white leaders have advocated the scrapping of racially discriminatory laws on the economic plane, but these calls were ignored even before a National Party government bent on racial separation and white hegemony came to power in 1948.[3] Had they been heeded, the face of South African society would be a markedly different one from that which we see today.

To have eliminated discriminatory economic legislation more rapidly would doubtless have resulted in a higher rate of growth for the South African economy. One analyst estimates that the persistence of influx control alone took an annual toll of one percent GDP growth since 1960.[4] Any system of economic government that seeks to restrict freedom of choice on so arbitrary a basis as that of race is bound to result in market inefficiencies. For example, say that A would like to sell his land, and that B and C offer him \$5,000 and \$7,500 respectively, both of which are greater than what A values it at. In an unregulated economy, of course, the item is sold to C, and society has found a more, if not the most, efficient allocation of the land. But presume further that C is black, and that a previous government has outlawed black possession of the item in question. B, a white, wins the auction with his lower bid. A and C are the losers here, along with the economy as a whole: the land is no longer put to its most productive use. In South Africa this example is especially apt: under the Group Areas Act all races are restricted geographically as to the land they may purchase. A host of other racially based economic restrictions, only recently taken off the books, most notably those on the movement of labor, posed equally serious obstacles on the path to economic growth.

The ultimate consequences of constraining the market are even broader, for the rationality of an unfettered market inevitably supplants the irrationality of prejudice. Those individuals who value their freedom from dealing with members of another race more than profit to be gained from doing so will not remain competitive; they will either be forced to restrain their animosities or fall by the commercial wayside. Repeated economic contacts at all levels and in all facets of a multiracial society chip away at stereotypes that can only survive where the races are insulated. Allowing such contacts results in physical and social mobility, breaking down not only the attitudes that characterize racial antagonism but also the structures that serve to perpetuate them.[5]

In the South African context, to have allowed such a free market from the start would have led inexorably to a racial modus vivendi perhaps similar to that in Brazil. But even a free market requires some time to erode irrational prejudices. Given the degree of racial polarization in South Africa today, the hour is very late. The government's recent reforms must nevertheless be welcomed, for the market may well be the last hope of achieving needed change without massive bloodshed. Even if equality of opportunity is not yet complete at the time when political power is transferred, the longer the process is in motion, the better.

### **The Making of a Divided Society**

South Africa's troubles are the result of government intervention on a scale presently known only in the Eastern Bloc and other avowedly socialist nations. This is especially ironic since the Afrikaners traditionally sought to escape big government, not to embrace it. Unfortunately, their obsession with race overpowered that inclination.

The first act of apartheid came only eight years after the first whites arrived at the Cape of Good Hope in 1652: colony leader Jacob van Riebeeck planted a hedge of bitter almond across Cape pasturelands through which indigenous black herdsmen were not permitted to cross. In 1685 came the first statute, prohibiting mixed marriages, which would persist

for almost three centuries. Other race-based measures slowly followed, most notably the advent in the early nineteenth century of so-called pass laws, which required blacks to seek permission to enter into and work in designated white areas.

But those first years were frontier years, and in the absence of pervasive government interference blacks displayed versatility at adopting European methods of farming and commerce.[6] As late as 1890, affluent black farmers numbered in the thousands, some owning as much as 3600 acres.[7] In 1864, the prosperity of these agricultural entrepreneurs led one missionary to comment of a trade fair, "I think the [Africans'] exhibitions far surpassed that of the Europeans." [8] Some adopted the accoutrements of European lifestyles, including brick homes, and the better-off among them contributed to the development of roads and schools.

Unfortunately, in turn-of-the-century South Africa, whites refused to tolerate black success in the marketplace. They instead intensified legislative suppression. White farmers sought protection from black competition; the authorities responded in 1890 with an act limiting individual black land ownership to ten acres. The law destroyed any prospects for black agricultural success, even though it was justified in the name of bringing about equality among the native population. At the same time, hut and poll taxes were introduced or expanded to force blacks to take jobs working for whites in order to pay those taxes. More dramatically, the Native Lands Act of 1913 prohibited black ownership in all but 7 percent of South Africa's land mass. (These so-called "reserves," increased to 13 percent of the country in 1936, would later provide the basis for the present-day "homeland" system.) White farmers, meanwhile, obtained additional support in the form of massive subsidies for the production and marketing of their crops.[9]

This fear of agricultural competition was compounded by demands for cheap, unskilled black labor among both the white farmers and new white mining interests. The various Afrikaner "treks" resulted in the continual expansion of white rule over the subcontinent during the nineteenth century. Those areas heretofore tilled by blacks were routinely confiscated by whites, who in turn grew accustomed to paying low wages to the now landless black laborers. At the same time, beginning with the discovery of diamonds at Kimberley in 1867, and with greater intensity following the discovery of gold along the Witwatersrand, mine operators also saw a boon in a vast, legislatively created cheap labor supply. Despite contemporary protestations of non-complicity with the establishment of economic apartheid, the industry's lobbying arm, the Chamber of Mines, clamored for stricter enforcement of the pass laws and the prohibition of black unionization.[10] The short-term boon to mining was impressive: black wage rates in the industry decreased from 1896 to 1915, at which point they remained static for another fifteen years.[11]

Opportunities for black economic advancement were cut off along other avenues as well. Following violent protests by white mine workers during the early 1920s, blacks were barred from holding skilled positions in industry. This was achieved both through direct legislation (the various Apprenticeship Acts) and binding agreements between management and white unions (given legal effect through the Industrial Conciliation Act of 1924).[12] Blacks were also precluded from entrepreneurial advancement. The law, first of all, erected formidable thresholds for legal residence in white South Africa, without which one would lack fundamental security of tenure. Secondly, the new Nationalist government prohibited non-white businesses within white urban areas. Finally, a maze of ostensibly non-racial health, registration, and safety regulations in practice precluded the formation of small-scale enterprises.

It is not surprising, then, that average black per capita earnings as a proportion of white earnings actually fell between 1925 and 1960, from 24.6 percent to 21.2 percent; [13] there were simply too many restrictions on blacks for them to progress economically. Nor in those years was there any hope of seeing these obstructions razed by the country's political institutions. Blacks had always suffered a most limited franchise, the remnants of which were eliminated in 1957. Only in the homelands, still mostly backwaters of economic despair, did they have even theoretical voting rights.

These mechanisms of racial oppression, 300 years in the making, were consolidated and expanded with the assumption of National Party control in 1948. Nationalist ideology demanded that the patchwork of race-based measures be institutionalized as a comprehensive apartheid system. The Afrikaner government, now unconstrained by the moderation of English-speaking whites, pushed through Parliament a number of laws designed to achieve racial separateness in every aspect of South African life. The Population Registration Act of 1950 required the classification by race of all individuals born in South Africa.[14] The Group Areas Act of 1950 provided for the designation of residential areas along racial lines, and barred blacks from owning property in urban areas. Social legislation included

the Prohibition of Mixed Marriages Act of 1949, which, along with the Immorality Act of 1957, proscribed sexual relations and marriage between whites and non-whites; and the Reservation of Separate Amenities Act of 1953, which mandated racially separate hotels, restaurants, and bars, the backbone of "petty" apartheid. The Promotion of Bantu Self-Government Act of 1959 allowed for the creation of independent homelands, and for blacks with ethnic ties to them to cease being South Africans. Thus, when Transkei and Ciskei were granted "independence" respectively in 1976 and 1981 (which no country other than South Africa recognized), all blacks classified by the government as members of the Xhosa tribe were stripped of their South African nationality, no matter where they resided. The Black Labour Regulation of 1953 and the Industrial Conciliation Act of 1956 strengthened prohibitions against blacks organizing their own or racially mixed unions.

Perhaps most important, however, were those measures regulating the movement of blacks. Influx control was already well established in South Africa before the Nationalists came to power. The infamous Section 10 of the Natives (Urban Areas) Consolidation Act of 1945 had already limited legal urban black residence only to those living in such areas continuously since birth and those having worked there for a single employer for ten years or several employers for fifteen.[15] The Nationalist government strengthened this measure with the Prevention of Illegal Squatting Act of 1951, which turned over enforcement against peri-urban squatting (establishment of shack communities in the shadow of the cities) by blacks from local to national authorities, and the Native Laws Amendment Act of 1952, which instituted comprehensive controls on the movement of black labor by channeling it through government-established homeland labor bureaus. The Native (Abolition of Passes and Coordination of Documents) Act of 1952 required that blacks carry a pass book (alternatively known as a reference book), indicating employment and residential histories, and allowed police officers to demand production of it at any time. Seventeen million blacks have been arrested for offenses under this law and its predecessors since the beginning of the century, more than 250,000 in 1983 alone.[16]

### **The Crux of Black Grievances in South Africa**

The ultimate object of black opposition to the Pretoria regime is, of course, the assumption of political power, and there can be no equivocation in affirming the right to majority rule in South Africa. But that does not mean that there are no incremental steps to that end, nor that it is in the shorter term an all-or-nothing proposition, as the radical opposition leadership and most of the international press tend to represent it. Assuming that it is not on the verge of capitulation, there are certain things that the Nationalist government can and has done that are preferable to other things also within its power. One can take this view looking at the immediate plight of black South Africans and at the country's post-apartheid condition.

First of all, the mass detentions and brutal crackdowns (including torture) in response to the recent unrest must stop. Rounding up responsible black leaders is only an invitation to more violence. Divested of the moderation that comes with age, township protests have become the creature of youngsters with nothing to lose and little understanding of what can perhaps be gained through more peaceful tactics. The government's security forces, far more culpable in failing to exercise restraint, must be brought to bay by rescinding the laws that expanded their power. Moreover, the South African judicial system, sometimes admirably impartial and offering at least modest due process guarantees, should be strengthened.

That said, there are other demands aside from the right to physical security and political participation high on the black agenda. Life for many blacks in South Africa has been difficult and depressing.[17] But it has been difficult and depressing in large part because of their economic situation--particularly in comparison to the tremendous affluence within the white community--and because of the pernicious way government interferes in their everyday lives. Put more starkly, men who must travel several hours every day from a homeland to jobs in a white area that pay low wages (as more than 800,000 South Africans do), or live in crime-ridden township hostels separated from their families for months at a time (only 33 percent of black migrant workers are accompanied to urban areas by their wives), are worried not so much about the vote as about the effects of influx control and other obstacles to their economic advancement. The vote might present liberation from both, but it is seen primarily as an instrument toward that end and not an end in itself.

This perspective does enjoy statistical support. One study by a progressive South African academic found that whereas 65 percent of the residents in a Witwatersrand township considered wage reform a top priority for change, and 59

percent the scrapping of the pass laws, only 22 percent cited the franchise.[18] Similar surveys found that 56 percent of Durban factory employees think that the pass-law abolition will "help them the most," as opposed to 18 percent citing the vote;[19] 53 percent of black migrant workers are "angry or impatient" with influx control enforcement as opposed to a 40 percent concern with the political situation.[20] Even among relatively affluent blacks economic concerns are voiced with almost as great a frequency as political ones.[21] Improved educational opportunities also figured highly in these studies.

These figures are offered not to belittle the legitimate political aspirations of black South Africans but rather to demonstrate that economic forms of repression have been even more keenly felt--a frequently overlooked fact. An instructive analogy may be drawn to the position of South Africa's English-speaking whites. The political system as now configured is commonly thought to entail democracy for all white South Africans. While every white does nominally enjoy the vote, gerrymandering and other practices ensure that the Afrikaner community holds all political power. English speakers comprise four-tenths of the white population but hold not a single cabinet post. The Progressive Federal Party, almost exclusively supported by an overwhelming majority of the English electorate, has amounted to little more than a parliamentary irritant to National Party hegemony. Even at the level of more informal channels of political influence, the Afrikaner monolith is virtually impenetrable to pressure from other whites.

Yet, despite this relative political impotence, one does not hear the English complain of their own position within South African society. The reason for this otherwise unusual quiescence lies in the full enjoyment of economic rights, the ability to go about their business relatively untrammelled in a way that blacks quite literally cannot; English-speaking whites are, in fact, the most prosperous among all South Africans. That they are not able to move politically as, say, an industrialist from Cleveland might with his senator, does not seem of overriding concern, except where those economic rights are threatened. (On that note, it is significant that leaders within English-dominated commerce have become far more politically vocal as they perceive in the recent unrest a threat to South Africa's economic stability.) Their ballots are virtually as meaningless as those cast by Indian and Colored voters under 1984 constitutional reforms, but one does not find the English at the barricades.

Finally, it is again important to emphasize that the black leadership's disdain for recent government reforms does not necessarily mean those changes are unimportant to the black population as a whole. Of course, much more clearly needs to be done. For example, black leaders now quite properly emphasize the persistence of the Group Areas Act. This measure has been the backbone of residential segregation, and the Pretoria government would be well advised not only to accelerate its promised review of the statute but also to push for total repeal. Indeed, events seem to be outpacing the government's willingness to modify or scrap the Group Areas Act. Many neighborhoods, especially in the Johannesburg region, have experienced de facto integration as blacks and members of other racial groups manage to evade the law and rent or purchase housing in prohibited zones. Such actions combined with surprisingly mild responses from white residents also suggest a reservoir of biracial support for further reform.[22]

### **The Government Reform Program**

At the same time it has moved to suppress black unrest, the government has also taken significant and positive steps to eliminate some of the more pervasive facets of the apartheid system. It has moved to abolish most of the race-based laws enumerated above, and smart money would bet that all non-political discriminatory legislation will be scrapped in the near future. While the reform program may be intended to perpetuate white control--and indeed for a time may achieve that goal--it should nonetheless be acknowledged as a constructive advance towards racial harmony in South Africa.

Abandoning the Vorwoerdian approach of the fifties and sixties, one committed to nearly complete de jure insulation of the races, Pretoria adopted limited reform initiatives in the mid-1970s, taking root in the wake of the 1976 riots in Soweto. These first tentative steps were at a time when, despite a general prosperity brought on by increases in the price of gold, labor unrest and skills shortages were impeding industrial growth. With the Industrial Conciliation Acts of 1979 and 1981, South African labor law was largely deracialized. The government recognized the formation of black unions and their rights to collective bargaining. Job reservation was scrapped in all areas of the economy save for 13 categories in the mining industry.

Furthermore, the seeds of a black middle class were for the first time sown, not so much by government as by the private sector, which worked to elevate some blacks into managerial categories while stepping up philanthropic activities in the black communities aimed at improving blacks' technical and vocational skills. Pretoria modestly facilitated this liberal trend by tolerating greater social integration, for instance, by allowing designated four-star restaurants and hotels to cater to racially mixed clientele. Thus arrived on the South African scene the phenomenon of economic and social cooptation, whereby the creation of black elites with a stake in the status quo, or at least in prevailing stability, was designed to stave off the threat of racial conflict.

Such cooptation should not be dismissed insofar as it has worked to change racial attitudes. These early measures, coupled with more sweeping legislative reforms along the same lines over the past two years, have virtually eliminated what has come to be known as "petty" apartheid. In mid-1985, Parliament repealed the Immorality and Mixed Marriages Acts, as it had significant provisions of the Separate Amenities Act. White central business districts are now free to allow the establishment of black businesses, an option which almost all major urban centers have chosen. The Group Areas Act alone today stands in the way of complete social integration, and, despite government protestations to the contrary, it is likely to be scrapped in the near future.[23] While not addressing the core problems posed by the apartheid system, these changes are not to be scoffed at: any steps that encourage interracial contact should be encouraged.

Far more important to the cause of racial progress, however, has been the loosening of those laws relating to the enforcement of influx control. Among developments in this area are:

- the repeal of provisions under which black workers from the independent homelands were required to return annually for contract renewal;
- the creation of black ownership rights in urban township areas;
- the restoration of South African citizenship to many blacks dispossessed under the homelands acts; and,
- the repeal of provisions regulating the movement within South Africa of blacks not resident in the independent homelands.

Much of this reform legislation was offered as a single package in May 1986, unfortunately just as the government was about to decree a new state of emergency. Implementation may be slow, as it was following the announcement of central business district reforms in 1984, for some changes may be dependent on local authorities or require the cooperation of South Africa's notoriously cumbersome and conservative bureaucratic machinery. The most important part of the package did, however, take immediate effect. The pass laws are no longer enforced; perhaps the most hated manifestation of apartheid has come to an end.

It will remain difficult to gauge the shorter-term effects of the government's reform program so long as extraordinary security measures provide for the suspension of basic civil rights. In some instances emergency laws even cancel out the reforms. For example, an end to warrantless searches to investigate the possibility of pass-law offenses has been rendered largely meaningless by legislation broadly allowing warrantless searches under the state of emergency. There are also indications that entry into urban areas will be continue to be limited by the availability of housing, an area of marked shortages caused by government restrictions and interference with the market. Hence, as things now stand, a black perception of general government harassment has been little mitigated, especially in those urban concentrations in which the unrest has focused. But were a significant lull in the violence to occur, these reforms would spell a clear improvement in the quality of life and standard of living for blacks, both through diminished direct official oppression and through the general contribution that such deregulation will make to the entire economy.

### **Non-Racial Government Intervention and the Informal Sector**

Considered above are those forms of government intervention that are (or were) intended to achieve the economic subjugation of black South Africans, however cloaked they may have been in the non-preferential semantics of "separate development." But the black majority has also been oppressed by another panoply of laws and regulations, one neither specifically targeted at the black population nor ordinarily associated with the evils of apartheid. Yet

measures long in place impeding the development of small business have obstructed black economic advancement hand-in-hand with more obviously discriminatory legislation.

The so-called informal sector in South Africa has generated a significant amount of employment and income for those at the lower end of the economic scale. Such activities as street peddling, auto-body shop work, home brewing, streetside haircutting, and even "informal" schools, few enjoying the formal licensing virtually always required under South African law, are conservatively estimated to involve from 5 percent to 20 percent of the black population in both urban and homeland areas.[24] One South African study places the number of such underground businesses at 800,000, accounting for as much as 40 percent of South Africa's total economic output.[25] Whatever the actual magnitude (by its very nature difficult to measure), the informal sector has been acknowledged as an important outlet for the unemployed, whose numbers will increase in the face of annual economic growth of less than 5 percent.[26]

Until recently, however, the informal sector has not exactly been the object of government encouragement. Consider an individual who wishes to sell goods legally on the streets of Johannesburg. The would-be trader must apply to the Johannesburg City Council and pay a fee of five to ten rands. The application is scrutinized by the municipal health, traffic, and planning departments, and in many cases the licensing board will require that the applicant advertise in at least two newspapers, one in each of the two official languages (English and Afrikaans), to allow for objections to the application. Even were the individual to pass these hurdles (at a total cost of some 100 to 130 rands or \$40 to \$60), he would remain considerably hampered by time and place restrictions, which, for instance, prohibit all street selling in much of the center city between 7 a.m. and 6 p.m. Peddlers in other areas are required to change sites every 25 minutes.[27]

Similar regulations hamper more established services. Butchers must meet arbitrary and excessive health standards. Auto mechanics must complete specified training courses and be licensed, as must providers of 150 other services. The installation of electrical services must meet tough and often questionable safety requirements. Where complied with, these regulations add enormous costs to products and services of fundamental importance to a developing community. For example, minimum standard requirements for electrical outlets--higher than those in the United States--price electricity out of the market for many blacks.[28] At a more fundamental level, tens of thousands may suffer malnourishment because of increased prices for foodstuffs. Where restrictions are ignored, providers expose themselves to arrest, fines, and confiscation of goods. It is not surprising that virtually all such enterprises in downtown Johannesburg are conducted illegally, nor that few of these individuals will ever enjoy the legal security basic to business expansion.[29] And because it has been the blacks who by law have been relegated to a substandard existence, their enterprise has been more constricted by the presence of arbitrary standards and entry regulations.[30] As one study puts it, "[w]herever regulations prevent less qualified people from getting jobs or starting businesses and poor people from buying and selling, the least qualified and poorest people suffer most,"[31] which in the South African context translates into yet another form of racial oppression.

The importance of the small business sector to the South African economy is by now generally recognized, and there are indications that the government is responding to calls for deregulation. An official 1984 National Manpower Commission report recommended a dramatic loosening of regulatory legislation affecting the informal sector. Experimental non-enforcement in the homeland of Ciskei has led to positive results.[32] Elsewhere in South Africa, because such laws remain within the jurisdiction of local authorities, reform will require the action of numerous city and provincial governments. Bureaucrats jealous of their petty powers are not likely to give them up unpressured, nor are those already established in protected trades likely to desire the increased competition that comes with deregulation. At the same time, South Africa's larger corporations have challenged municipalities to act on the issue. Private organizations, including the Small Business Development Corporation, the Urban Foundation, and the National African Federated Chamber of Commerce, have launched significant funding initiatives at the grass roots to assist promising ventures in hurdling the many obstacles that remain in their way.

Informal-sector regulations are not the only way in which governing authorities intervene to distort the workings of the market in South Africa. About 25 agricultural control boards give established producers statutory powers to regulate to their own advantage the production and marketing of everything from eggs to dried beef. Various governmental and quasi-governmental agencies dictate the prices of hundreds of goods, although substantial progress has been made since the heyday of price controls in the mid-1970s, during which the national government set prices for some 200,000



products. The utilities, iron and steel, transportation, telephone, and television industries remain state-owned monopolies. (Anyone who has watched South African Broadcasting Corporation programming can attest to the inappropriateness of government control in that area.) Finally, a long-standing, costly policy of industrial decentralization has failed to create efficient new businesses outside established industrial areas. Motivated largely by the lingering political goal of restricting black presence in white areas by boosting homeland economies, the policy has resulted in massive subsidization costs and is often abused by businessmen interested not in putting down permanent roots at decentralization points but rather in making the quick buck guaranteed by government supports.

These various interventions have generated a bureaucracy frightening in its absolute size. More than 150,000 whites, almost all from an Afrikaner adult work force of under 800,000, work directly for the central government (one-quarter of them in the direct enforcement of apartheid laws), while tens of thousands more work for provincial and local authorities, parastatal corporations, and other quasi-government bodies. Unfortunately, these civil servants account for a significant percentage of the de facto electorate in South Africa (as explained earlier, dominated by Afrikaners), and they are least likely to support a program of limiting government's role in the economy. In fact, the interests of bureaucrats, subsidized farmers, and other Afrikaners afraid of black competition in the job market have combined to obstruct a firm official commitment to change. Now that many members of these groups have pulled a political walkout by forming two ultra-conservative opposition parties, the Nationalists may have an opportunity to work with a freer hand. However, National Party leaders continue to stress the threat they could face from the right if reform moves too quickly. Such excuses, whether motivated by genuine fear of extremist victory (by election or by force) or simply used as a stalling tactic, must be abandoned. The minority of South Africa's population--white and black--that stands directly to gain from big government must not obstruct reforms imperative to the welfare of the whole.

Finally, it must be noted that at the same time as it has perpetuated these schemes of control the government has extolled the virtues of free enterprise capitalism. While such official rhetoric may in part reflect genuine beliefs, it has also been useful in retaining the loyalty of Afrikaner constituencies by portraying South African "capitalism" as the antithesis of a black-dominated communist onslaught. Unfortunately, this tactic has also produced serious attitudinal repercussions within the black community. Many blacks now understandably associate the free market with apartheid, however ludicrous that coupling may be. Consequently, they are not inclined to consider free-market policies as being in their interest. As long as blacks are shut out of government, they will not be able to act on this festering anticapitalist bias. But once they attain power, the adoption of avowedly socialist practices could become an unthinking reaction to decades of "free market" repression. One sees this anticapitalist tendency today in the campaigns to brand successful black businessmen as collaborators. However unfair this characterization is in most instances,[33] the effect is to steer young black talent away from economic pursuits and into the political arena.

Scrapping informal-sector controls and the remaining economically and socially discriminatory legislation by no means provides a complete answer to South Africa's troubles. But it should not be ignored. Reducing government intervention has already shown progressive results in diminishing the racial income gap. Between 1960 and 1980, a period including at its outset some distinctly conservative years, black real per capita income rose some 220 percent, almost twice as much as that of whites. Although black income continues today to represent only a fraction of white income, the reforms of the last five years will undoubtedly promote a further closing of the gap. Moreover, the freeing up of millions of rands in government spending that had been wasted on unnecessary, indeed harmful, administrative bodies can now be devoted to worthier objects of public expenditure. Chief among these is black education. Monies previously wasted on the enforcement of apartheid could be used to reduce disparities in per capita expenditures on schooling (now running more than seven to one to the advantage of whites) and to improve vocational training programs. (As was true in much of colonial Africa, there is a glut in liberal arts degree holders and a severe shortage of those schooled in those areas needed most by the country's economy). Such steps would also address one of those grievances frequently cited within the black community itself: second-rate education.

As far as deregulation's potential contribution to overall national economic growth, there is no reason why, with the passing of serious political instability, South Africa might not follow the success stories of Hong Kong and of other similarly deregulated economies. It is a country of tremendous resources, both natural and human, the wasting of which can and should come to a halt

### **Pre-Transition Reduction in the Size of Government**

The argument thus far can be summarized as follows: The South African economy has been hobbled for decades by a maze of interventionist measures that have subjugated the black majority in economic and social as well as political terms, while reducing overall economic growth. Further loosening of this regulatory framework would certainly promote the betterment of everyday life for the average black South African, including an improvement in black economic standing relative to that of whites. These developments would also encourage racial understanding and cooperation, thereby easing the transition to majority rule.

This thesis focuses on the benefits of creating a free-market economy in South Africa. Unfortunately, change will come slowly to entrenched economic and social hierarchies, and full equality of opportunity is unlikely before the advent of majority rule. Apartheid has been all too successful at erecting formidable walls between the races, and deregulation will not eliminate these divisions overnight. Majority rule, while by no means right around the corner, will probably come to pass by the turn of the century. The recent prolonged unrest has not itself seriously challenged the foundations of the apartheid regime, insofar as it has been successfully limited to black townships. But the government will not be able to contain the violence indefinitely to black areas. The country may yet witness periods of relative tranquility, but at some point the unrest will become chronic and bring about the fall of minority rule.

But there are advantages to embracing a vigorous deregulation program immediately no matter how much progress can be made by the time the transfer of political power takes place. In addition to the benefits discussed previously, by dismantling the vast bureaucratic structures that have come to dominate South African society, the present white government will make it less likely that succeeding black governments will adopt a similar policy of wholesale interventionism.

It would be far easier to turn around the existing administrations for equally misguided, albeit majoritarian, uses than it would be to rebuild them from scratch. Established agricultural control boards, for example, could just as well work to keep food prices too low and stifle production (the case in much of the rest of Africa) as they might to keep prices propped up and farmers well off (the case in South Africa today). Another possibility: Although freehold rights were recently granted on a limited basis in the townships, the provision of urban black housing remains largely the province of government boards. Woefully incompetent at handling the task, these boards have used severe shortages in government-built shelters as a justification for continuing to stem the flow of blacks into the urban areas. It is entirely conceivable, however, that a black regime would maintain the boards, either as a way of protecting the advantages that urban blacks have gained over rural ones or in some misguided attachment to the concept of controlled urbanization--an all-too-popular policy elsewhere on the continent.

Despite protestations to the contrary, the present South African state is essentially a socialist one, especially with regard to its treatment of non-whites. A majority-led government might improve the motives behind regulation from thinly veiled oppressive or paternalistic intentions to supposed desires for general upliftment. But with good motives or bad, continued government intervention in the nation's economy would be highly detrimental. The solution then, is to accelerate the process of rescinding the interventionism of years past.

## **A Constructive U.S. Policy**

The United States can exert a limited but crucial influence on developments in South Africa. Unfortunately, domestic political pressures--as exemplified by the recent congressional decision to impose a variety of economic sanctions--may ensure that this impact will be highly negative. Congressionally mandated sanctions combined with growing pressure on U.S. business firms to leave South Africa will only strengthen diehard elements in that country, thereby prolonging apartheid. Aroused national pride and resentment at foreign campaigns of intimidation are scarcely conducive to increasing the pace of reform and the transition to majority rule.

A more constructive U.S. policy would be one that expresses enthusiasm for the economic and social reforms enacted thus far while clearly stressing the need for further action. Not only should the Reagan administration urge Pretoria to move more quickly toward recognizing the political rights of all South Africans, it should also advocate eradicating the remaining bulwarks of economic control. Expanding rather than forcibly curtailing U.S. business interests and investments in South Africa would give added impact to this advice. Western firms find the irrational, economically wasteful apartheid system maddening, and their resistance to its demands creates additional pressure for abolition.

Both governments now stand at a crossroad in their policies. South Africa's white minority regime must decide whether to accelerate economic and social reforms and move inexorably toward majority rule or vainly attempt to preserve its artificial dominance. The former course will help lead the country to a more prosperous and peaceful future; the latter strategy guarantees heightened political conflict, both before and after the transition to majority rule, with all the hardship and agony that outcome implies.

For the United States the choice is less momentous but nonetheless important. One option is to continue our present strategy--adopting measures designed to isolate South Africa politically and economically in order to demonstrate our collective abhorrence of apartheid. The alternative is to expand a dialogue with an admittedly racist regime in order to encourage and prod it toward further constructive actions. While embracing a punitive policy may provide greater short-term moral satisfaction, it risks condemning South Africa to a violent and impoverished fate. A policy of constructive criticism is less dramatic, but it has the potential to help South Africa avoid such a tragedy. U.S. leaders should not spurn that opportunity.

## FOOTNOTES

[1] There are indications of a surprising absence of racial animosity, given tense prevailing political conditions. In one study of heavily unionized black workers in the Durban area, only 18 percent described the purpose of generally despised influx control regulations as one of racial political and economic subjugation. The rest characterized the motives of legislators "as practical or bureaucratic without the intention of creating hardship." L. Schlemmer, "The Fence of Opportunity: Influx Control and Black Reactions in South Africa," in H. Giliomee and L. Schlemmer, eds., *Up Against Fences: Poverty Passes and Privilege in South Africa* (Cape Town: David Philip 1985), p. 108. In relative terms, of course, members of each race tend to have higher regard for their own than for those of other races. See Human Sciences Research Council, *The South African Society: Realities and Future Prospects* (Pretoria: Human Sciences Research Council, 1985), pp. 81-83.

[2] An equally important example of this dilemma comes with the issues of tribalism and "black-on-black" violence. Emphasizing their existence tends to excuse delays in granting political reform through invocation of the "blacks aren't ready to govern" argument, which is exactly how the white regime would have them characterized. On the other hand, both are in fact significant problems in South Africa today. To turn once again to the Zimbabwe precedent, inter-tribal rivalries are far more likely to plague a black governance in South Africa than racial ones. (The accession of Zulu leader Gatsha Buthelezi to power, this writer would contend, would seriously enhance the probability of tribal conflict.) Because such issues present real problems, therefore, they must be acknowledged even if such acknowledgement lends credence to some government positions.

[3] For example, see S. H. Frankel, "The Position of the Native as a Factor in the Economic Welfare of the European Population in South Africa" (unpublished paper, Johannesburg, 1927), p. 19. General Jan Smuts himself, whose government was responsible for a considerable tightening of influx control, is said to have observed of such measures, "You might as well try to sweep the ocean back with a broom." A. Lemon, "Migrant Labour and Frontier Commuters," in D. M. Smith, ed., *Living Under Apartheid* (London: George Allen & Unwin, 1982), p. 66.

For more recent echoes of this thesis, see S. T. van der Horst, *The Economic Implications of Political Democracy* (Johannesburg: Anglo-American Corporation, 1960), p. 47 (noting that the 'repeal of discriminatory legislation and the enactment of safeguards of political and economic rights could be a springboard giving an impetus of hope and confidence to the [South African] economy'), and William Hutt's seminal *The Economics of the Colour Bar* (London: Andre Deutsch, 1964).

[4] Interview with Michael O'Dowd, economist and member of the board of directors of the Anglo-American Corporation, Johannesburg, July 19, 1985.

[5] For a more detailed explication of the market's effect on race relations, see H. Blumer, "Industrialisation and Race Relations," in G. Hunter, ed., *Industrialisation and Race Relations* (Oxford: Oxford University Press, 1965), p. 226.

[6] F. Fisher, L. Schlemmer & E. Webster, "Economic Growth and Its Relationship to Social and Political Change," in

L. Schlemmer and E. Webster, *Change, Reform and Economic Growth in South Africa* (Johannesburg: Ravan Press, 1978), p. 16.

[7] Leon Louw and Frances Kendall, *After Apartheid: The Solution for South Africa* (San Francisco: ICS Press, 1987), ch. 1.

[8] Quoted in *ibid.*

[9] These subsidies continue to account for a significant--and ill-founded--proportion of total government spending, perpetuated by an over-representation of rural districts in Parliament. As late as 1976, Pretoria spent almost as much on agricultural supports as on health care. C. Simkins, "Public Expenditure and the Poor" (Cape Town: Carnegie Conference Paper No. 253, 1984), p. 27.

[10] S. Greenberg, "The Political Economy of Change: Problems of Hegemony in Contemporary South Africa," in F. van Zyl Slabbert & J. Opland, eds., *South Africa: Dilemmas of Evolutionary Change* (Grahamstown: Institute of Social and Economic Research, 1980), p. 110.

[11] J. Browett, "The Evolution of Unequal Development Within South Africa," in Smith, p. 19.

[12] Such exclusion, which came to be known as job reservation, did have the effect of raising the cost of skilled labor. Until the post-World War II era, however, industry acceded to the constraints of this so-called civilized labor policy as a means of political compromise. With the support of both the agricultural and industrial Afrikaner community, English-speaking mine operators could be confident of government cooperation with their other needs. It was only when English-speaking interests were shut out from political power with the Nationalist victory in 1948, and when job reservation began to create more serious shortages in skilled labor supply, that these business interests sought to reverse this practice.

[13] Hutt, p. 181.

[14] When first implemented, such classification was often made solely on the basis of appearance. So distinguishing between whites and so-called coloreds (individuals of mixed race) was a highly problematic procedure, to the point that brothers occasionally wound up separated by race, with all its tragic consequences.

[15] The workings of Section 10, in effect until early 1986, often gave rise to blatant inequities even when considered in its own terms. Until the 1983 Rikhoto case, for instance, thousands of migrant black workers forced to return to their homelands annually to renew one-year contracts were nonetheless denied residence rights, even when employed with a single employer for the requisite period, on the theory that the employment had not been "continuous" because of this return to their homelands. See A. Chaskalson and S. Duncan, "Influx Control: The Pass Laws" (Cape Town: Carnegie Conference Paper No. 81, 1984).

[16] C. Cooper et al., eds., *Race Relations Survey 1984* (Johannesburg: South African Institute of Race Relations, 1985), p. 348. Pass laws were at least nominally abolished in 1986.

[17] One study found more than 20 percent of black South Africans to be "very dissatisfied" with their lives, as opposed to only 2 percent among other races, including Indians and coloureds. Human Sciences Research Council, p. 84.

[18] Schlemmer, "The Fence of Opportunity," in Giliomee and Schlemmer, p. 105.

[19] *Ibid.*, p. 107.

[20] L. Schlemmer and V. Moller, "Constraint, Stress and Reaction: Responses of Migrant Contract Workers to Their Situation," in Giliomee and Schlemmer, p. 152.

[21] T. Nyquist, *African Middle Class Elite* (Grahamstown: Institute of Social and Economic Research, 1983), p. 114.

[22] William Claiborne, "Despite South African Law, Nonwhites Move Near Whites," Washington Post, November 21, 1986.

[23] It is significant to note that prosecutions under the Group Areas Act have become rare, and that members of non-white race groups commonly live in designated white areas quite openly. (Non-enforcement also characterized sex and marriage prohibitions before their recent repeal. Indian businessmen had long been known to operate in the downtown areas of Johannesburg and Durban, using white fronts for purposes of legal documentation.) Although of course it should be of concern that such a law does remain on the books, one might properly draw an analogy to the legal situation of homosexuals in the United States. State sodomy laws were recently upheld by the U.S. Supreme Court as being constitutional, and yet, left unenforced, no one would argue that they directly affect homosexual rights, although they may be symptomatic of other forms of discrimination.

[24] "The Informal Sector: The Case for Deregulation," Johannesburg Financial Mail, July 13, 1985, p. 37.

[25] Louw and Kendall, ch. 5.

[26] Human Science Research Council, p. 101.

[27] See K. S. O. Beavon and C. M. Rogerson, "The Informal Sector of the Apartheid City: The Pavement People of Johannesburg," in Smith, p. 113.

[28] The health implications alone of this market distortion are staggering. The winter visitor to Soweto cannot help but be struck by the thick pall over the township created by coal-burning heaters and stoves.

[29] Again, however, non-enforcement of certain regulations has in some cases resulted in the sort of practical security that allows for more normal patterns of business development. The best example of this phenomenon, operators of township she-beens, or bars, recently pooled their resources to form a company to handle their wholesale needs. This they were able to do despite the fact that more than 99 percent of South Africa's shebeens were at the time unlicensed and operating illegally. South African Institute of Race Relations, p. 227.

[30] A symptom of the relative effect of such constraints is to be found in the racial percentages of trading licenses granted in the Johannesburg area. In 1982, only 19 percent of all trading licenses went to non-whites (including 11 percent to Indians), despite a 69 percent representation in the population as a whole. *Ibid.*, p. 220.

[31] Louw and Kendall, ch. 4.

[32] Louw and Kendall, ch. 4.