THE SOUTH AFRICAN EXPERIENCE WITH ECONOMIC DEVELOPMENT

by

Joel R. Moitse

In partial fulfilment for the requirements
of the M.A. Degree

McGill University, Montreal
May, 1967

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INTRODUCTION

The major objective of this study is to investigate the degree to which government policy of South Africa has been successful in fostering economic growth.[1]

Two basic propositions underlie our investigation. The first, developed by S.B. Linder maintains:

> While trade in primary products is explained by factor endowments, trade in manufactures is explained mainly by the similarity of demand patterns in the trading countries. Industries develop in a country because of the existence of a potential market at home and an industry is able to expand and export once the home market has grown to enable industry to attain significantly large scale economies to become competitive in world markets. The strongest market is found in countries where the composition of demand is about the same, which means that their per capita incomes are at the same level.[2]

This may explain the relatively large percentage trade between South Africa and Rhodesia, and perhaps the relatively loose trade ties between South Africa, New Zealand and Australia, the latter two being South Africa's best competitors in primary products excluding minerals.

The inequitable distribution of income in South Africa renders a portion of the community to enjoy a very high standard of living, the effect of which is to distort the composition of demand for this portion, in the direction of patterns found in Europe and North America, thus manifesting Linder's argument in a curious sort of way. An attempt at illustrating the above pattern will be made by examining that proportion

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[1]Growth, a phenomenon which is accepted as being desirable, in our context will mean an efficient utilization of productive resources to increase national income and, thereby, to improve the general living standards of <u>all</u> South Africans.

[2]W.M. Corden, <u>Special Papers in International Economics</u> (Princeton, N.J.: Princeton University Press, March, 1965), 7, pp. 31-32.

of South African trade which takes place between developed and underdeveloped countries.

The second proposition is developed by H. Myint. It would appear that much of South Africa's economic ills have been underlined by Myint, when he maintains that cheap labour encourages low productivity by perpetuating inefficient methods of production and false economy by leading to output expansion without any improvement in productivity.[3] For this he cites West Africa, Southern Africa and parts of Asia as examples of output expansion without any change in the often wasteful traditional methods of cultivation. This problem is often at the root of the famous controversy about the relevance of classical theory to development.[4]

Myint contends that the opening of the colonies was often characterised by entrepreneurs who were unwilling to invest in fixed capital because of the abundance of cheap labour. This becomes even clearer when we bear in mind that one of the main incentives to technical progress is the desire to save on labour costs. The absence of this inducement meant that industrial organization in the Smithian form of division of labour could not take place. Instead, an increase in demand often led to expansion without any internal investment thus making production an extractive rather than a conserving process.

Myint further maintains that an increase in demand does not seem to have been sufficiently powerful to steer production beyond the extractive level. This contention assumes that soil fertility would not be depleted

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[3]H. Myint, "The "classical theory" of International trade and the underdeveloped countries," Economic Journal, LXVIII (New York: St. Martin's Press, 1958), pp. 317-337.

[4]Some of the notable critics of the classical theory when applied to underdeveloped countries were G. Myrdal in his International Economy and J. Viner in International Trade Economic Development. The former even formulated an interesting concept of the advanced countries by trading with underdeveloped countries which set into motion forces that widen the gap.

by the extractive process itself. If this assumption holds, and demand is sufficiently large, increased mechanisation would appear to be the obvious solution.

It can be inferred from Myint's argument that the stimulus which industrialization gives to productivity in the agricultural sectors of the already advanced countries via technical progress further weakens the competitive position of primary commodity producing countries and, because foodstuffs are such a small proportion of incomes spent in advanced countries, the underdeveloped countries, therefore, become engaged in competing for a small fraction of incomes of consumers in advanced countries.

Myint further contends that comparative advantage does not apply in the classical sense in underdeveloped countries, but rather the vent for surplus argument, by which he means that gains from trade are based on exchange of surplus produce rather than on a specialized production for an international market. The gain is then in terms of extra goods which this surplus can fetch from foreign sources. Hence the inability of this kind of trade to change the traditional methods of cultivation among a colonial people; the effects of which would have placed them within the analytical framework of the classical theory. He therefore finds the blame placed on classical theory irrelevant.

For purposes of this study the relevant conclusions of Myint's analysis are then as follows:

(a) The people of the "semi empty" backward countries appear to have obtained a smaller share of the gains from international trade than can be satisfactorily accounted for in terms of initial, social and economic conditions of these countries and in terms of the relative scarcities and effectiveness of the "domestic" factors compared with the "foreign" factors of production. This seems to have been caused not only by monopolistic and monopsonistic factors in the static sense, but also by dynamic pressures of the need to expand export production rapidly.

(b) This does not, however, mean that this type of backward country should react blindly against the "nineteenth century" pattern of international trade and embark on a policy of protection to foster domestic manufacturing industries. Rather the suggestion is made that the chief source of trouble lies with the internal pattern of economic development rather than with the external pattern of international trade. The former failed to pass on the full benefits of international division of labour to the people of the backward countries. It also appears to be partly responsible for whatever disadvantages the backward countries may have suffered in the way of unfavourable external terms of trade and lack of dynamic economic stimulus from international trade.

(c) This would suggest that the people of backward countries are likely to gain from a compromise policy of external free trade combined with internal state control. In the peasant sectors, state control should take the form of a more effective use of the marketing boards already in existence. In the non-peasant sectors, state investment and partnership with private concerns may be needed to facilitate the switch over from a cheap labour policy to a policy allowing for a greater vertical mobility into skilled grades.[5]

The above conclusions are specifically relevant to South Africa where Government intervention has been considerable, and it is in the light of this framework that the following chapters should be understood. Much as the main theme remains South African experience with growth, with special reference to the international trade aspects, the study may also present a case for an intelligent use of protection, at least in the initial stages of development, bearing in mind that for further development, tariff policy will have to be increasingly more selective because almost all arguments for protection are of a "second best" nature.[6]

The first chapter will present an outline of South African history as a general background to the study. The second chapter will describe structural changes within the South African economy since 1925. This is an attempt to assess both the growth and the policy measures that influenced its bias.[7]

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[5]H. Myint, "Gains from international trade in backward countries," Review of Economic Studies, XXII (London: W.P. Griffith & Sons, 1955), p. 141.

[6]The most difficult problem which confronts any investigator of the South African experience concerns the inadequacy of statistical data, particularly data for the non-white population. Another problem reveals itself in the dynamic interaction of the economic variables. It is in this respect, therefore, that historical background must assume importance.

[7]South Africa, like most underdeveloped countries, began with a traditional society hostile to change. Both started with subsistence economies. Its relatively recent progress, nevertheless, may be of some importance in illuminating some of the problems which growth entails. It is to be noted, however, that the South African economy's dependence on primary products places it among the army of underdeveloped countries, yet its possession of fair quantities of gold has singled it out as being unusually fortunate.

The third chapter will attempt to underline some of the major weaknesses in the economy during the period relevant to our study--namely 1925 - 1960.

Chapter four will present an analysis of the trading patterns which developed during the period 1925 - 1960 as a result of the government policy of protection. This analysis extends into Chapter five. This chapter covers the years 1950 - 1960. The reason for separating the two periods lies in the fact that after twenty-five years of protection the economy was exposed to gradual relaxations in the tariff structure. The years 1950 to 1960 present a clearer picture of the fruits of government policies which were initiated in 1925. From this decade, we may assess the relative success of protection to the degree that this policy was largely based on infant-industry-type arguments.

The sixth chapter will attempt to draw some conclusions and suggest, wherever possible, means of improvement in government policy.

The reader is warned that there will be occasional discrepancies between data obtained from secondary sources and that computed from primary sources. This should not affect the argument as the discrepancy is caused by the fact that revisions which are included in primary sources may not have been foreseen by the authors that used the original figures and estimates.

CHAPTER I

HISTORICAL, SOCIAL AND ECONOMIC FOUNDATION OF SOUTH AFRICA

Some Vital Statistics

South Africa is approximately 1,500 miles north to south and 1,250 miles east to west, and covers an area of 473,000 square miles. It consists of a 6,000 feet land-mass, separated from the long but relatively lush coastal area on the east and south by the Drakensberg mountains rising to 11,000 feet and gradually verging towards the drier and semi-arid country on the west towards South West Africa. It has no navigable rivers; costs of transport are high since the railways and air provide the only major means of transportation. Climatic conditions show a considerable variety and the crops and agricultural products reflect these conditions. In short, South Africa exhibits a striking contrast between the static and the dynamic, the handicraft and the highly technical; the subsistence economy side by side with an advanced industrialised society.

The population according to the 1960 census was 16,002,797, of whom 3,088,492 were white, 10,927,022 African, 477,125 Asiatic and 1,509,258 mixed. The white population is 56 per cent Afrikaans[1] and the rest are mostly English speaking, drawn from every country in Europe.

The Economy

Its mineral wealth in precious and base metals is considerable: gold, diamonds, osmiridium, uranium, coal, iron manganese, lead, copper, asbestos, tungsten, phosphates, chrome, etc. Its agricultural products are cattle, sheep, pigs, wool, maize, oats, groundnuts, timber, fibres, sugar, tobacco, cotton, wines and all types of deciduous and citrus fruits.

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[1] This refers to people of Dutch descent.

South Africa's industrial complex shows a similar range and variety, and embodies highly mechanised techniques (as those in the steel industry) side by side with those relying on large numbers of unskilled workers. The economy is based on a large participation in international trade; for example, in 1964, exports, excluding gold, amounted to £472.05 million, whilst imports were estimated at £688.55 million. Gold exports amounted to £385.55 million,[2] the balance of trade amounting to plus £237 million.[3]

South Africa has a highly developed commercial sector and a reserve banking system, diversified money market, modern stock exchange facilities and virtually all the institutions of a developed financial economy.

The Opening of the Country

Underlying the South African economy are problems whose roots are deeply imbedded in the history of the country. The opening of South Africa began as early as the seventeenth century with the establishment of a half way station by the Dutch East India Company at the Cape of Good Hope. A.G.W. de Kiewiet has stated: "The Portuguese discovered it, the Dutch realised its importance and held it for a century and a half before the English acquired it as the most important single point on their way to their Indian Empire."[4] From the above we may postulate that the opening of the Cape was closely associated with the age of Mercantilism; a period characterised by impressive dividends for the Dutch East India Company.

[2]The Economist Intelligence Unit, "Republic of South Africa and South West Africa," Quarterly Economic Review (March, 1965), p. 6.

[3]The importance of international trade to South Africa becomes clear when these figures are compared to the 1964 Gross Domestic Product at factor cost of £3,333.5 million.

[4]A.C.W. De Kiewiet, A History of South Africa (Oxford University Press, 1950), p. 1.

The Dutch East India Company gave its servant Jan van Riebeeck precise instructions to wit:

> The Dutch East India Company has no desire to tame the wilderness, nor to find new homes for Dutch men over the seas. Jan van Riebeeck's duty would be done if he provided the company's vessels with fresh meat and vegetables, for the settlement at the Cape was not a separate venture. It was a cog in a great commercial system . . . . In that system spices and profits came before souls and patriotism.[5]

The Company, in its desire to maintain these ideals, used soldiers to cultivate the land and service the station. These were, however, inefficient. In 1657 the Company decided, therefore, to substitute self-interest for discipline. At the suggestion of Jan van Riebeeck, nine of the Company's servants became 'free burghers' and landholders, which is to say they were given small land holdings of 13½ acres, free from taxation, to which they bound themselves for twenty years. These burghers continued to do some of their military duties, and were required to supply the Company with its requirements at fixed prices.[6] Furthermore, they were not free to grow tobacco over which the Company had a monopoly, nor were they free to trade with their native neighbours. We can speculate that it was in this incompatability between little freedom and much constraint that much of the Colony's subsequent history was contained.

The Company fought hard to save its monopoly against infringement. The colonists, slowly growing in number, struggled to be freed from an almost feudal government. The Company was on the one hand set against expansion into the interior of the country whilst the burghers looked upon the interior as the only place where they could be free from restraint.

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[5] Ibid., p. 4.

[6] Some of the requirements embraced provisions ranging from fresh vegetables, fresh meat, wine, fresh water, etc.

The early burghers faced an acute shortage of labour and capital. It was, therefore, not within their power to engage in intensive agriculture. Moreover, in 1664 South African farming suffered its first depression. As de Kiewiet said, "For centuries this was to be the familiar cry of the land . . . it had not taken long to discover that for those who till the land South Africa was a poor land, capricious and unpredictable."[7]

The 17th century came to an end with the Company's colony unable to pay its own way and satisfy the needs of the forty odd ships which stopped at the Cape each year. Most of the burghers were poor, many were in debt and some lived on charity. The English War of 1665 and the French War of 1672 taught a lesson of the strategic importance of the Cape for the British Empire. In 1666 the construction of a fort began at the Cape. With the fort built, the Company encouraged more immigrants for its defence. The nine burghers of 1657 had multiplied to nearly 600 by 1688 when the first French Huguenots arrived. In two generations two hundred Huguenots were assimilated into the Cape community. Thus it began to resemble more a colony than just an outpost of the Company.

That a self-conscious community had come into being in spite of poverty and depression was evident during the governorship of Simon van der Stel (1679-99) and his son William Adriaan (1699-1707). These men were both innovators and reformers. They brought to the Cape some agricultural science which had made Holland famous in Europe long before the days of Jethro Tull. Simon planted oaks and his son planted modern vineyards and produced more genial wine than the kind captains

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[7] De Kiewiet, op. cit., p. 6.

had, heretofore, taken reluctantly on board their ships. William's unsuccessful attempt with wool also gave him a glimpse of South Africa's possibilities as a pastoral country.

When Simon van der Stel left the Cape in 1699, his son assumed office. It was not long before William turned his genius for innovation and good management to his own advantage. The mistake which he made was not so much that he tried to enrich himself, for this was a common occurrence, but rather that he tried to enrich himself at the expense of a poor, under-peopled colony, where dishonesty struck swiftly at the welfare of the struggling colonists. In defiance of the Company's instructions he became the biggest landowner, the biggest cattle owner and the biggest wheat farmer, wine grower and slave holder in the Cape. As a pure economic achievement it was admirable. William Adriaan van der Stel had thus founded an efficient monopoly--which had been the Company's original objective in founding the settlement. This discovery, however, came too late, since an outcry from the colonists led to his dismissal in 1707.[8]

It is important to note that the Company, in its eagerness to simplify administration felt compelled to hold the Cape settlement within definite limits. It insisted, for instance, on the fewest possible contacts between the colonists and the Hottentots, for it knew full well the conflicts which could ensue if such a contact was allowed. Its ideal settlement was an intimate neighbourliness and intensive agriculture which could easily be supervised from the Cape-castle. Among the many factors that made the ideal of the Company unrealistic were the following:

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[8]This dismissal had a significance in so far as it established a precedent of self-assertion on the part of the colonists, removing the initiative of what was to be done at the Cape from the hands of the Company.

the Cape could not be drawn into the world trade which would have compensated the colonists for their effort. It could not compete with the rich soils and advanced agricultural techniques of Europe, nor with the cheap labour and the more abundant rainfall of the East Indies. The costs of production were high and the quality of products often poor and unreliable.

A colony so isolated, so poorly endowed, so dependent upon a tiny domestic market and the ships which anchored at the bay was unable to attract capital. Wealth creation was a painfully slow process. It was out of sheer necessity, therefore, that the colonists looked towards the interior for salvation.

With the growth and development of the Cape community, the Company's supervisory duties became increasingly complex. The movement to the interior was steady and irreversible. From 1727, when the first edict was issued from the Cape, the history of South Africa was to be the history of the expanding frontier. The Company tried fruitlessly to halt this expansion and impose its own rule; however, the Afrikaner character was in the process of formation. Afrikaners were acquiring love for open spaces beyond the reach of the Company. Again, in the words of De Kiewiet:

> They had the nomads appetite for space and possessed the hardness and courage of men of the saddle who watch their flocks and hunt their meat. Their wealth was in their cattle and their sons and grandsons who thrived amazingly . . . . Their tenacity could degenerate to obstinacy, their power of endurance into resistance to innovation and their self respect into suspicion for the foreigner and contempt for their inferiors. For want of pastors they read the bible drawing freely from the old testament, which spoke their language of their lives, a justification of themselves, of their beliefs and their habits . . . the remotest corner of Europe was better informed.[9]

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[9]De Kiewiet, op. cit., p. 17.

Racial features of the South African Scene

Added to environmental factors, South Africa's evolution was further complicated by the existence of other races. Out of all these races was to emerge what is commonly referred to as "the South African way of life."

The Hottentots

The Hottentots[10] looked upon the coastal belt as their own. They were a pastoral community with pride in their cattle. Behind them were the marauding Bushmen and a less generous climate. In spite of the Cape Administration's efforts, the colonists and the Hottentots could not be kept away from each other. In this way the Hottentots tasted of the white man's tobacco, spirits and diseases against which they had no resistance. They broke down undramatically and simply.

The Slaves

Slavery was introduced into the Cape purely by accident as there was no plantation economy such as that found in the sugar islands. The conscience of the French and the English captains, however, did prevent them from helping to pay for the Cape's expensive meat by trafficking in slaves. At the very beginning, therefore, a double strand of South African history was woven--namely the servile worker and the free colonist. In 1708 there were 1,147 slaves at the Cape. By 1795, their number had increased to 1,800.[11]

Slaves and Hottentots provoked remarkable changes in thoughts and habits of the colonists who soon learned to look upon labour of the field and upon all hard physical toil as a function of a servile race. In the West Indies such a large proportion of slaves and Hottentots as were found in the Cape, would have been regarded as a blessing for the plantation

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[10]These people are known as Khoi-Khoi; the word Hottentots is a word of abuse though presently official, cf. Bushmen.

[11]De Kiewiet, op. cit., p. 21.

economy. In the Cape slavery was a sign of an unenterprising economy.[12]

As more slaves came, whatever efficiency which did exist in agriculture, was increasingly sacrificed to slave and Hottentot labour. In the process there developed a privileged white-caste. Thus began the development in South Africa of a self-conscious group (the colonists) who seeking to escape hardships of a life in a poor and unprosperous land, turned distinction of race and colour into a device for a social and economic discrimination. As De Kiewiet maintains: "in this manner the limited wealth of the colony became the privilege of its white population, whose higher standard of living was at the expense of the economic and social welfare of a numerous servile population."[13]

The fact that the Cape Administration could not stop the movement into the interior became increasingly clear. This expansion eastward, however, was temporarily halted by encounters with African tribesmen.

The Bantu

The Bantu were more numerous than either the Hottentots or the colonists. They were primarily pastoralists with the characteristic nomadic spirit. Their economy consisted of primitive agricultural practices which could be understood within the assumption that land was in infinite supply and as soon as the occupied area diminished its yield the community could move in search of new pastures and arable soil. They were also hunters grouped in a more organised social unit called the tribe with the extended family as the unit of production. They had, like Afrikaners,

[12]It was at the same time the consequence of and the cause of the Cape's poverty. As slaves arrived the productivity does not seem to have improved and yet a greater number of people became dependent on appreciably the same resources.

[13]De Kiewiet, op. cit., p. 22.

their set of beliefs and superstitions. They had a religious code with a complete ritual. Tribal elders and witch-doctors had their respective roles to play in the social fabric. Cattle were highly valued, whilst land was held communally for the concept of land ownership was alien to them. Savings was, therefore, a function of natural rate of change in the animal stock, and the ability of the warriors to restore the balance when the equilibrium was disturbed. It may be said they enjoyed a golden age equilibrium with a low rate of consumption by modern standards, and a significant consumption of leisure.

From 1779 onwards the Bantu and the Boers had a close and unbroken relation. In time the quarrels between the Boers and the natives became more complex in their causes. Men quarrelled over the stealing of cattle and over the possession of land and about labour upon the land. Each clash left a larger number of natives embedded in white society. In one sense, the frontier wars became civil wars between groups economically associated with each other. At the end of the century their association was still loose. The Dutch frontiersmen could not prevail so easily against the natives as they had done against the Hottentots. Nevertheless, the process of subjecting the Bantu to their service was well begun.

The British Occupation

The occupation of the Cape by the British was one event which added impetus to the expansion of the frontier and the eventual exodus of Afrikaners into the interior of the country. Whilst the British Administration was in many ways better than that of the Company, it failed to comprehend the essential truth that the Afrikaner had adapted to the new environment in a way that made him less amenable to centralised supervision from the Cape. In addition, the occupation of the Cape by the British brought with it humanitarian ideas. This was expressed by zealous missionaries whose concern about the rights of Hottentots was disturbing to the Afrikaners. Dr. Phillip was one such missionary. The abolition of slavery (1837), and the compensation given the Boers, was a keen cause of discontent. An attempt to treat Hottentots as men with human rights was violently opposed by the Boers and it eventually led to a rebellion, setting the same Boers on the Great Trek northward.

Adaptation of British Settlers

Attempts at anglicising the Afrikaners seemed deemed from the start especially when examined in the light of the 1820 settlers who were placed in the territory of Albany. The British settlers left depression in England to find it awaiting them in the Cape. Their reaction was different from that of the Afrikaners. Rather than settle on the land they became urban dwellers and artisans and thus, we may speculate, lost the only chance of changing the Afrikaner. This urbanisation coupled with the British Government's reluctance to spend the necessary money for enforcing its reforms[14] reduced English influence in shaping South African attitudes. The Home Office's fear of an internal involvement in the country left the initiative for opening South Africa to the Afrikaners. The movement of Afrikaners into the interior was viewed with apprehension by the Cape Administration. The intensity of this apprehension was exceeded only by the hesitation of the Home Office.

Aspects of the Afrikaner emigrant's character

Although the emigrant farmer opened the hinterland and made a great contribution to the development and enrichment of later South Africa, theirs was not the aggressive movement of a people braving the

[14]These reforms would include enlightened policy towards natives, regulation of frontier and other institutions of local representation of frontiersmen, etc.

wilderness for the profit that it would give them. Though they were skilled in the ways of the veld, good horsemen and superb marksmen, expert at breaking in an ox, or a horse, able to tan leather, make bricks and work in wood and stone, they developed in a far lesser degree than their Australian or Canadian contemporaries the inventive faculty to overcome the physical and material onstacles of their environment. Even in the area which became the Orange Free State, where sheep farming was a success, the methods were crude. In the Transvaal wool was for a long time an incidental product, placing it among the lowest grades on the markets of England.

In understanding the genesis of modern South African society, it is of greatest importance to know that the land beyond the Cape's borders was not an open land such as that which lay before the Australian squatter. It was an area of settlement by a great Bantu population. Much of the energy of the Boers was used more against the natives than against nature. And, as it had happened earlier, every piece of land acquired brought with it its original inhabitants as servants or squatters.

Major Characteristics of the Four Provinces

By 1840, the Cape had assumed a rather British character, Natal had discovered sugar and both provinces were competing for the trade with the Boer Republics to raise revenue which would enable them not to remain behind their sister colonies, Canada and Australia. In 1852 the Sand River Convention recognised the independence of the Boers beyond the Vaal River; two years later the Bloemfontein Convention withdrew British sovereignty from beyond the Orange River. Thetwo Boer Republics were, after all, to manage their own relations with their own native neighbours. This circumstance meant that representative government, which the Cape received in 1854, would not be the foundation on which South Africa would build its future. This was in addition a concession to what the Great Trek and its spirit stood for, namely racial patriotism and the isolationist patriarchal outlook that went with it. The two Boer Republics, however, were cut off from the sea. Natal and the Cape did not share their revenues. It was less likely that they should share with these land-locked republics since they were, themselves, poor. The Republics were, however, poorer.

The 1862-70 Depression and the Discovery of Diamonds

The forces of depression, which began in America and made the looms of Lancashire cease their shuttling, finally reached South Africa. Indeed, from 1862 to 1870 depression gripped the land. Unprecedented droughts and the ravages of insect pests made the crisis harder to bear. For the whole decade not another sleeper was added to South Africa's railways. Neither the wool of the Cape and the Orange Free State, nor the sugar of Natal were able to pay for imports and public works needed to keep South Africa abreast of an industrial and commercial age. Some other source was needed, and for South Africa this source became diamonds and gold.

It should further be emphasised that the flow of immigrants from England and Ireland passed South Africa by, as wages were not attractive and labour was both cheap and abundant within. Upon the life of the natives rested all the weight of the benefits of 'civilization.' As De Kiewiet so dramatically expressed it:

> Each greasy blanket and torn pair of trousers they wore, each hoe or length of copper wire they bought, each bottle of 'Cape smoke' they drank, was a charge upon their frail resources. Poor though they were, the consumption of salt and sugar, tea and coffee, soap and candles, the use of buckets and spades ultimately became habits. Amongst the agencies which transformed the lives of natives the trader was the most influential; for it may freely be said that in 1870 there was scarcely a man or woman who was not in some measure a consumer of manufactured goods. In the same manner did the

> natives become taxpayers of the Republics and the colonies. In Natal above all, but in other communities as well, heavy contributions were levied upon the natives. In 1862, when the customs revenue of Natal amounted to £40,672 native taxes amounted to £17,925. A very important means of native taxation was by import duties on articles of native consumption. The increased tariffs of 1860 and 1863 in Natal were imposed chiefly on articles consumed by the native population in order to cover the expenses of the introduction of coolies from India to work in Natal sugar plantations. Upon the very numerous population on European land there dwelt the obligation of rents. Many a landowner, especially in the British colonies, obtained an important income from 'kaffir farming.' The great landholding companies were able by this means to lock up blocks of land without loss to themselves by levying rentals upon the native squatters. [15]

By this time diamonds were picked up and the first gold discovered; black and white were joined indissolubly to one another in the closest of economic relationships. Here finally may be seen the explanation of the failure of South Africa to attract as many immigrants as Canada or Australia. Her source of labour was within the country. The diamond fields were South Africa's first industrial community. There South Africa faced for the first time problems of capital and labour. Here, South Africa confronted a new competition between its white and black inhabitants, not for land or cattle, but for a place in industry. Industrial Kimberley joined the rural Great Trek in its insistence that the town as well as the country be based upon an economic as well as racial distinction between black and white. The servile tradition of the farm was introduced into industry.[16]

The nature of diamond mining also mitigated against the individual digger. The greatest proportion of diamonds were found in the unique geological formation of pipes of blue ground running deep into the earth.

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[15] De Kiewiet, <u>op. cit.</u>, pp. 81-82.

[16] It was a crude political economy that exploited the ignorance and the poverty of the natives and at the same time perpetuated these defects. It also demanded vagrancy laws and complained of 'idle' natives in the reserves and locations.

Thus, mining advanced from a simple to a complex process. Cecil Rhodes and Barney Bernato, both in command of large capital resources, consolidated diamond mining at the time when bankruptcies were rife. Men of skills were immigrants from abroad. Thus, the white workers working in these mines stood out more sharply as they were not of South African birth. They also set a precedent which was later to characterise South African industry namely its dependence on expensive skilled labour. Except for its wagon builders, South Africa had no skills upon which the mines could draw. Thus, the division of labour between a large body of black men and a small group of skilled workers, which was later to permeate the economy, was not only the result of prejudice. The Blacks had no skills to offer; they were often recruited from what remained of their tribal communities and went back when contracts expired. By contrast, Whites were bound by many ties to their place of work.

The Wars that Preceded the Union of South Africa

It was during this period that the Transvaal was undergoing its own trials. It is within South African historical pattern that major wars there were fought during droughts or threatening famines. During 1877 the severest drought South Africa had known in years began. On the eastern frontier, which was largely occupied by the Bantu, the drought revealed, as never before, the overcrowding of man and beast. In this region, the natives, colonial and imperial troops, fought a difficult and an expensive war. At the end of this war in 1878, the Transvaal was at war again with Sekhukhuni, and the war with the Zulus which Natal had feared for a generation was imminent.[17]

[17] De Kiewiet, op. cit., p. 105.

The wars which followed led to a great deal of bitterness and did very little to improve the attitude of the Transvaal which, henceforth, was to carry the flag of racial patriotism. That the Transvaal, devastated with depression, was bound to weaken was, perhaps, obvious if it had not been for the fact that gold was to be found there. From then on, the Transvaal was to emerge as the leading industrialising force in the country simultaneously stamping its character on South African political life.[18]

The Gold Industry

The Witwatersrand gold deposits are at once the richest and the poorest in the world. They are poorest because the average gold content per ton is low, they are richest because the number of tons of ore is well-nigh incalculable. In none of the gold producing centres of the world is the average of gold content so low. In the United States the average richness of the gold ores is three to six times as great. It is, however, the poor ores, those on the margin of profit, which yield great output of gold. The problem of mining, ever since the discovery of the Witwatersrand, has not been to find rich ores but to make the poor ores pay. Thus from the very beginning there was no place for the individual with pans or sluice boxes. Heavy machinery and railways, engineers and technicians, scientists and large volumes of capital were imperatively needed by the Transvaal mining.

[18]The Transvaal was the most rebellious of the Boer Republics. The period referred to above was an era when the four provinces lacked a much needed decisive leadership from England. It was during the same period that South West Africa fell into the hands of Bismarck whilst the British hands were tied by the Transvaal in a futile war. The most outstanding achievement of this war was to make Afrikaner Nationalism stronger and less rational. It also laid a solid foundation for the Anglo Boer War which was to leave South Africa bitterly divided between English speaking and Afrikaans speaking.

This dependence upon the recent achievements of industrial and chemical science, and upon complex financial direction inevitably made the Witwatersrand the centre of industrial revolution in South Africa. In the midst of the slow moving people there sprang up a modern industry, worldwide in its importance. The unusual demands which gold fields made on the Transvaal, and the vivid contrast between them and the rest of the Republic, were a fertile source of difficulties which preceded the Boer War.

Mining began in a period of low prices and at a time when the world's demand for gold was far in excess of the prevailing supply. The great machines which were needed to mine the ore found their source of energy in the abundance of coal which was both cheap and of good quality. In 1887 one mine paid a dividend of 57 per cent; and another 25 per cent.[19]

It took several years to realise that gold reefs could not be successfully worked by a large number of competing companies. Mining demanded the precise knowledge of its scientists, and the fullest skills of its engineers. It also demanded up-to-date business and financial organisation. The deeper the mines went the greater were these demands. Men like Rhodes and J.B. Robinson, with the experience of Kimberley mines behind them, were swift to bring order into chaos. Although it had taken Rhodes nearly twenty years to found the De Beers Consolidated Mines, within six years the Consolidated Gold Mines of South Africa was an accomplished fact.[20]

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[19]De Kiewiet, op. cit., p. 118.

[20]Ibid., p. 119.

The revolutionary impact of gold on the economy is difficult to over-estimate. It permeated to the remotest Bantu village and brought men from distant corners of the earth. Revenues of the Cape and Natal rose sharply.[21]

The prosperity which came to all manifested itself in dramatic price rises.[22] However, many problems were present; a community dependent on land and cattle, especially when the former was largely drawn from foreign countries. An industry, narrowly dependent on the world market, was intolerant of the localism of the Republics. A simple society which had embraced the wilderness in order to protect its habits of living was challenged by a complex order in which there was a variety of industrial and commercial pursuits. Freedom which the Boers prized was limited only to themselves. They had defeated thus far all efforts to extend it to the natives, and were reluctant to extend it to men who disapproved of them and knew not their ways. Because they had little art, no architecture and no literature, they depended on their bibles, their farms and the blood to set them off sharply against the natives and outlander (foreigner). All three loyalties, namely, their Bible, their farms and their blood ties, sustained their resistance to change and strengthened their inertia which was normal in their sluggish economy.

The natural disharmony between the old and the new economic groups, the one homogeneous, becalmed and rural, the other cosmopolitan, urban and aggressive, was intensified by the moral and political disagreements that divided English and Dutch.

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[21] For example in the Cape, a revenue of £1,990,000 in 1886-7 increased by over £500,000 in 1889-90.

[22] A drought ox for example could fetch £12 instead of £3. Firewood could be sold with price exceeding the original value of the land on which it grew.

The policy of racial patriotism which Hofmeyer rejected in the Cape Colony was fervently adopted by Paul Kruger, the President of the Transvaal.[23] Kruger even sought an independent outlet to the sea to avoid using the Cape sea ports and those of Natal. By 1889, a railway line from Pretoria to the Portuguese border was constructed. In the meantime the Cape and Natal were engaged in a cut-throat competition for the Transvaal's merchandise export. Also, in an attempt to bring the Republic to its knees, Cecil Rhodes organised the futile Jameson Raid.[24] This event destroyed whatever good faith had remained between the English and the Afrikaners throughout the land. Extreme racial patriotism of the Boer Republics was at last vindicated, said the critics. Kruger signed a defensive-offensive alliance with the Orange Free State. The Transvaal politics were brought within the sphere of powers engaged in the scramble for Africa. German intervention was suspected and Kruger did little to dispel the fears of England. Events marched stubbornly towards a conflict which damaged British prestige--the Anglo-Boer War.

This brought to the surface the fact that the native 'problem' was insoluble. The provinces could not agree on a specified policy towards natives. The war precipitated the coming together of the four provinces with natives civil rights compromised in the interest of unity. Thus, it became clear at the end of the war that Great Britain had fought

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[23] De Kiewiet, op. cit., p. 122. Note that resentment was caused partly by the selfish attitudes of the Cape and Natal in dealing with the Republics, by the British annexation of the Transvaal in 1877 and by the fact that there were men from Holland Germany who hailed the idea of an independent Dutch Republic, free from British control.

[24] This was aimed at aiding an evisaged uprising of the outlanders in the Transvaal against Paul Kruger--an event which would have justified British intervention.

the war not to hold South Africa but to relinquish her, and that British victory would paradoxically end British influence in South Africa. The Union of the four colonies was formed in 1910.

Following the formation of the Union both moderate English and moderate Afrikaners were in the position of leadership. Some of these men exhibited statesmanlike qualities in varying degrees. Compromises were made from time to time to hold the Union together. Even the constitution which reserved certain rights for the jurisdiction of each province was another feature of this compromise approach. Thus out of disjointed colonies was painfully born the political Union closely woven by economic ties and weakened by racial bitterness.

The Union of South Africa

The period following the formation of the Union was characterised by a steady process of industrialisation. However, the rural population increased and the Bantu also refused to follow what one Australian Governor called the "natural progress of the aboriginal race towards extinction." As De Kiewiet put it:

> The South African natives, it would seem, possessed some principle in their blood which fought contamination of drink and disease, some special virtue of the loins that enabled them to multiply in spite of wars and droughts and the loss of most of their ploughing land. [25]

It has already been stated that many Africans became labourers on the land they once owned. Some became squatters and paid rent, others provided their services for the protection which the farm gave them against a life which was different from the ones they were accustomed to. It must be said that the farmers were not always hard masters. According to De Kiewiet, cruelty was practically unknown. Yet, within this neat

[25] De Kiewiet, op. cit., p. 179

pattern, there seems to have emerged serious problems. Natives in the reserves were over-crowded. Their religious attachment to cattle did very little to alleviate the pressure on the land.

The use of land by Dutch farmers was wasteful. As the land was ill used, it retaliated by decreasing its yield. The disappearance of trees, grass and the appearance of deep ravines bore testimony to the ill usage of the land by the farmers, the natives and nature herself. It was thus a combination of forces that led to a surplus population which had to be absorbed by industry. Some of the forces were similar to those which characterised industrial revolution in Europe and the United Kingdom. Yet among the Afrikaners were found men who resisted a disciplined way of life. These were barred from taking employment as farm hands by the traditional outlook of the Afrikaner towards menial tasks. These men drifted to cities only to find themselves competing with natives for jobs. The policy to industrialise adopted by the Government in 1925 was directed at absorbing these men into some form of employment befitting their status as 'civilized' men.

The Introduction of Indians into South Africa

Sugar producing areas in the early years of the last century were hit temporarily by the abolition of slavery. Several attempts were made to introduce alternative labour. In Mauritius, for instance, Indians under the control of Sirdas filled the gaps, but abuses led to an inquiry by the British Government in 1837.[26] Five years later the Indian Government agreed to a system of Indian indentured emigration. Later regulations provided that migration should be voluntary, the recruiters should be

[26]Professor Burrows, Indian Life in Natal (Study prepared for and published by South African Institute of Race Relations), p. 1.

licensed, protectors of emigrants should be stationed in the old and in the new countries, and certain indenture conditions adhered to.

Indian emigration on a large scale began to Mauritius, West Indies and British Guiana. A similar movement to Natal began in 1860. At that time the number of Europeans in Natal was under 7,000. It is true that there was a large Zulu population but, though virile and trustworthy, Zulu workers were not amenable to routine of contract employment, nor were they emanable to discplined wage labour. Although various devices were used to increase the supply of Zulu labour, among which were imposition of poll taxes, hut taxes and creation of labour pools, labour shortage persisted. This shortage retarded the development of the colony under white enterprise and capital. The first insistent demand for increase in labour supply came from new sugar plantations which were being established along the Natal coast. There were differences of opinion between those who wanted a long term policy of immigration of permanent settlers and those who wanted relatively unskilled but dependable labour. Finally, the British Government of India assented to the entry of Indians into Natal on definite contracts, and agreed terms of indenture. The main provision of the initial contracts included free transport from India, an agreement to work for 10 shillings a month for three years (later extended to five years), and free food, accommodation and medical attention. The first group of Indians arrived in Natal in November, 1860, to work as agricultural labourers in the Natal sugar estates.

The influx continued, although there were not many immigrants in the short period of depression, following the American Civil War. In 1874, the stream of immigrants resumed its steady flow and during the next twelve years nearly 30,000 Indian workers entered Natal. Beginning in 1874 and for a period of twenty years, the Government of Natal contributed up to £10,000 a year towards the cost of transporting Indian workers. Not all these labourers returned to India when their contracts expired. Given the choice between re-indenture, a free passage to India, or freedom and a small plot of land, they usually chose the last named. The promise of land, however, was seldom kept. Moreover, beginning in 1896, the payment of an annual licence of £3 was imposed as the price of remaining in the country as free Indians. The sugar fields, however, found it increasingly difficult to retain workers who were attracted by higher wages to coal mining and other employment. Some Indians emigrated to the Transvaal. Continued immigration into Natal was, therefore, the only means of maintaining an adequate supply of indentured labour. Meanwhile, the number of Natal-born Indians was increasing adding to a growing supply of free non-indentured labour. In 1904, they numbered 19,000 and constituted 22 per cent of the Indian population. Because of unpleasant developments which involved removal of vestiges of civil rights which Indians had, the Government of India stopped this flow in 1911.

The Chinese and the Gold Industry

In 1904 the gold mining industry experienced a similar shortage of labour. Since mines were not considered a permanent feature of South Africa, they were a treasure to be efficiently plundered. The permanent exmployment of poor whites, it was expected, would be in industry. Industry would also absorb any increase in the resident white population. Above all, Milner who was the representative of the victorious British Government after the Anglo-Boer War looked upon industry which the mines would spur as a potential employment field for those English emigrants whom he thought would come to South Africa. The consequence of this kind of reasoning was the importation of 10,000 Chinese labourers in 1904 to reinforce the insufficient ranks of native labourers from within South Africa and the Portuguese territories. The Boers sulked but the industry prospered. Company revenue and public revenue alike expanded. The Chinese by 1907 had increased to 54,000.[27] Their presence was justified by profits of the industry. By forbidding further import licences in 1906 and repatriating all Chinese mine labourers in 1910 the British Government spared South Africa a further complication of her already complex life.

The Evolution of the South African "Way of Life"

The political history of South Africa after 1910 was a gradual movement away from ideas of racial co-operation between whites and non-whites. The period was opened in 1913 by passage of a law making it illegal for Africans to possess land except within 13 per cent of South Africa's land mass.[28] Most of this land was already heavily over-crowded and was under tribal chiefs who retained some remnants of the old system in a rapidly changing scene. To make a bad situation worse--the land was held communally so that with the rising African population economic units would be impossible to come by as all peoples here individually depended on what they could eke from the land.

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[27]De Kiewiet, op. cit., p. 165.

[28]This refers to the Native Land Act of 1919. Prior to Union in 1910, it was legally possible for natives to purchase land in all of the provinces except the Orange Free State. In actual fact, poverty, and sometimes pressure, prevented the native population from relieving the great shortage of land. The effects of the Act was an enforcement of segregation between white and black settlement. cf. footnote 1, p. 205.

The constitution of the Union (1910) stated that the franchise rights of the Cape natives may not be changed before the end of ten years. It was only in 1926 that the question was raised. However, the removal of this right from the constitution came in 1936 subsequent to the enfranchisement of white women.[29] This, however, was replaced by a system of indirect representation embodied in the Representation of Natives Act. The effect of this Act is best expressed in the words of G.W. De Kiewiet:

> Two Acts, the Natives Land and Trust Act, the Representation of Natives Act, passed in 1936, were the culmination of the policy of segregation. The first Act sought to make good the deficiency which had turned the Natives Land Act of 1913 into a weapon against native rural life. Recognising that few forces had been more powerful in driving the natives to the towns than the overcrowded reserves and insufficient land, the Act established the South African Native Trust Fund, to be used for the purchase and development of agricultural and pastoral industry within the native areas. The act empowered the trust from time to time to acquire land within specially designated 'released' areas until a maximum of $7\frac{1}{4}$ million morgen, approximately 15,300,000 acres was reached. And so the dispossession of native land which had been almost a rule of nineteenth-century policy was reversed in the twentieth century. Exiled men were to be returned to ancestral lands, or at least to some of them. Only the future could reveal whether the history of a century could be changed by the will of a legislative body.
>
> It followed that men who were to be physically segregated should be politically segregated too. Formerly men had blanched at the prospect of a concerted uprising of the blacks against all white men, now they contemplated a rising tide of black voters who might swamp them at the polls.[30]

The history of South Africa has since progressed towards the crystallization of the above-mentioned pattern. In 1948, men who believed in the creed of segregation gained office and the country has progressively moved towards greater intolerance between the races.

The list of oppressive legislation passed since Dr. Malan's assumption of office range from consolidation of Pass laws, Bantu Education

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[29] De Kiewiet, op. cit.. pp. 238-239.

[30] Ibid.

to the most notorious 'Sabotage Act' enacted in the early sixties. The Suppression of Communism Act, enacted in 1950, virtually equates any opposition to the Government with communist subversion; a situation to be cured as one would vermin.

It should be noted that as early as 1910 the Bantu were already changing their form of resistance. Isolated individuals were sending deputations to the British Government bitterly complaining about their lost land. A missionary-educated native by the name of Plaatjie headed a Native National Congress in 1913, protesting the 1913 Native Land Act. This movement began when the Bantu were recovering from the strife of the nineteenth century. By 1935 the All African Convention was formed to demand with a united front, the disappearing franchise rights. In the later years, it was the African National Congress which emerged as the widely recognised voice of the African peoples. Leo Kuper aptly describes the process as follows:

> For many years, the main African political organisations followed a policy, or strategy of non-violence. Over the last decade in particular, they experimented with a variety of militant non-violent techniques--mass demonstrations, boycott, civil disobedience, and the withholding of labour, where violence attended the campaigns, it was not by design; the typical reaction of mass violence was often provoked by the forceful intervention of police.
>
> The selection of specific issues in these campaigns was related to the need for mass appeal and their relevance to the ultimate goal of liberation. Pass Laws, which restrict freedom of movement, limit the right to seek employment and impose a curfew, were an obvious target. They lay the foundation for white domination, and continuous police surveillance of African life, they placed the stamp of office routine on midnight raids and mass arrests and give legal sanction to rule by force. At the same time, the African masses perceive the Pass Laws as a major cause of their suffering, and their support is generally assured in anti-pass campaigns.[31]

These organisations work amidst odds as many Africans struggle barely to keep alive. Added to this apathy is the overwhelming superior

[31] Leo Kuper, An African Bourgeoisie (New Haven, 1965), Chapter 3.

power of the State. This was demonstrated in the final campaign of the Congress of Alliance against the inauguration of the Republic. The campaign was advertised and organised in the conventional manner, with fair warning and ample opportunity for anticipatory action. The Government staged a massive display of force, launched mass raids and assumed and exercised new powers of arbitrary arrest. Many employers exerted pressure to ensure that their workers would not take part in the campaign. The issues may have been somewhat complex for many Africans; in any event, they lacked the resources to withstand pressure from employers. The display of state power could not fail to impress, and there had been many such campaigns, perhaps disillusioning in their consequences. Whatever the explanations, the Congress campaigns failed to master sufficient support for impressive display of strength.

The 1960 campaign of the Pan Africanist Congress introduced new elements. The mode of action was conventional, indeed it was a deliberate duplication of the 1952 civil disobedience campaign by the African National Congress against the pass laws. Africans presented themselves at the police stations and surrendered their passes, inviting imprisonment. "The police massacre at Sharpville and illegal police assaults on Africans in the streets and locations of Cape Town enhanced the political and moral significance of the campaign."[32] They were not planned by the Pan-Africanist Congress, however, and are not new in South African history.

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[32] Ibid., p. 30.

Leo Kuper in commenting on the Pan Africanist campaign:

> The innovation lay in the grandiose conception and the urgency of the campaign. Liberation was to be almost immediate--not "in our life-time" as older leaders proclaimed, but in 1963, and initiated by so massive a movement against the very basis of white domination that the system would crumble. Although the campaign itself was non-violent in the traditional manner, the Pan Africanist leaders did not accept non-violence as a matter of principle, a commitment for the future. They projected an image of themselves as brave and resolute men, part of a great movement shaping the destiny of the African continent. They appealed frankly to African Nationalism and perhaps less frankly or more ambiguously to African Racialism.[33]

This campaign achieved mass support in some parts of the country. It reverberated in the world press. And momentarily, it threatened the South African Government. The climax, the march of 30,000 Africans to a Cape Town police station in the vicinity of the Houses of Parliament would have been even more threatening if the leaders had not come forward to assume responsibility.

The overall results have been an intensification of security measures and wholesale arrests of leaders. It may be said, however, that the period following 1910 was also a period of close inter-racial co-operation. Races were drawn together mainly by economic needs. Urbanisation increased both among whites and non-whites. This will become increasingly clear as we proceed to examine the structural changes in the economy since 1925 and the increasing employment of both whites and non-whites in the industrial sector of the economy. In the mining industry, the employment of non-whites make it particularly significant in its contribution towards breaking the tribal structure of the Bantu peoples. It is the replacement of these traditional values that have presented a great problem. Missionaries, however, have done much to ease this transition.

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[33] Ibid.

The pool of industries compelled various tribes to converge in the urban centres and produced a new people, a new society, fervently seeking its place within the rapidly growing economy. It is among these people that formative leaders of the Bantu are emerging. Their homes are not in tribal kraals, they would feel as strange in such surroundings as most of their white compatriots.

With this sketchy outline we should be able to understand the following chapter which will attempt to outline the structural changes in South Africa's economy, since 1925, when the Government decided actively to influence South Africa's economic development.

CHAPTER II

THE STRUCTURAL TRANSFORMATION OF THE SOUTH AFRICAN ECONOMY

Structural Changes

In the year 1925 a fundamental change took place in the economic policy of the South African Government. From 1910 to the late twenties South Africa was predominantly an agricultural and a mining country. In 1917 secondary industry contributed 9.6 per cent to the Net National Income. Agriculture, forestry and fishing contributed 21.6 per cent, whilst mining contributed 20.3 per cent. The remaining 48.5 per cent was derived from the tertiary sector. In 1927-8, secondary industry contributed 12.2 per cent, agriculture, forestry and fishing 18.2 per cent, mining contributed 18.6 per cent, whilst the tertiary sector was responsible for 50 per cent of the Net National Income. In 1959-60, however, secondary industry contributed 23 per cent to the Net National Income. The contribution of agriculture, forestry and fishing had dropped to 11 per cent whilst mining contributed only 14 per cent with the tertiary sector responsible for 52 per cent.[1]

On the one hand, we see a relative material decline since the nineteen twenties in the net products of pastoral groups and mining, and on the other hand, a very substantial increase in the contribution of secondary industry. The latter increased by approximately 138 per cent between 1917-18 and 1959-60.

[1] A.J. Norval, A Quarter of a Century of Industrial Progress in South Africa (Johannesburg: Juta and Company, 1962), p. vii.

The Government, which embraced industrialisation as a policy, was motivated both by a desire to solve the poor white problem which was a source of great concern, and to bring about a greater measure of differentiation in the economy.

One of the initial steps was the reconstitution of the Board of Trade and Industries in 1925. This Board was invested with extensive powers and with all-embracing advisory duties particularly in regard to protection of manufacturing industries. Trained economists were appointed to the Board. They reviewed and recast the customs tariffs which thereafter assumed a more protectionistic character. The Board played a significant part in founding the Iron and Steel Industrial Corporation (ISCOR) which in turn has been so important for the economic development of South Africa since the early thirties. It was also due to this Board, for example, that the sugar industry was soon placed on a sound economic basis.

It can be postulated that a great deal of industrial development which took place immediately after 1925 was a direct result of the impetus given by protective measures applied in pursuance of the protective policy adopted that year. It was not always the protection granted as such, but rather the fact that the Government had pledged itself to encourage and assist the development of secondary industries. This assistance, it was pledged, would take the form of customs tariff protection, where necessary. It was this pledge which acted as a main stimulant.

The effects of the above-mentioned policy is reflected in what took place after 1925, both as regards the imposition of protective duties and the actual development of new and existing industries. Although the Board in its recommendations to the Government pursued a policy of moderate and discriminating protection, there was an immediate upsurge in the development of manufacturing industry as will be seen in Table 1.

The phenomenal rate at which the development of manufacturing industries took place during the period 1924-5 to 1957-8, after the introduction of a more protectionistic tariff policy, will be apparent from Table 1. While the number of establishments increased by 143.23 per cent, the volume of output increased by no less than 2046.7 per cent, the total number of employees increased by 440.1 per cent and the fixed capital by as much as 1778.04 per cent. The volume of output per establishment increased by 790.2 per cent, and per employee by 497.8 per cent, while fixed capital per establishment increased by 666.7 per cent, all of which point to a considerable material improvement.

The establishments were larger, there was more capital investment per unit, from which it can be concluded that along with improved organisation and managment, increased productivity on the part of labour has developed. While the total labour force increased by 440.1 per cent, the number of European employees increased by 317.9 per cent, whereas the humber of non-whites increased by not less than 505.9 per cent, which when read in conjunction with the increase in the volume of output shows an increase in productivity which can be accounted for by technical progress, and as far as the non-whites are concerned, by greater stability of the detribalized labour force.[2]

It will be noted that the greatest increase in the number of establishments took place between 1944-5 and 1948-9; whereas the greatest

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[2] A.J. Norval, *op. cit.*, p. 2.

TABLE I[a]

INDUSTRIAL DEVELOPMENT IN SOUTH AFRICA

Private Sector

	1924-5	1934-5	1939-40	1944-5	1948-9	1953-4	1954-5	1954-5	1955-6	1956-7	1957-8	Average Annual % Rate of Growth
Number of establishments	6,866	8,689	9,624	10,405	13,879	16,444	16,447	15,395	16,193	16,148	16,838	
Annual percentage rate of growth	2.4	2.1	1.6	7.5	3.5	0.0		5.2	-0.3	4.3	.	2.6
Fixed capital £'000,000	41	61	91	133	239	513	608	597	642	708	770	
Annual percentage rate of growth	4.1	8.3	7.9	15.8	16.5	18.5		7.5	10.3	8.8		8.6
Fixed capital per establishment £'000	6	7	9	13	17	31	37	39	40	44	46	
Annual percentage rate of growth	1.6	5.2	7.6	6.9	12.8	19.4		2.6	10.0	4.5		6.4
Number of employees: Total	152,747	234,295	314,488	431,402	590,896	772,898	809,208	770,796	786,130	808,074	825,047	
Annual percentage rate of growth	4.4	6.1	6.5	8.2	5.5	4.7		2.0	2.8	2.1		5.2
European	53,450	95,592	115,292	133,518	185,387	223,810	225,142	211,554	210,247	220,357	223,387	
Annual percentage rate of growth	6.0	3.8	3.0	8.5	3.8	0.6		-0.6	4.8	1.4		4.4
Non-European	99,297	138,703	199,196	297,884	405,509	549,088	584,066	559,242	575,883	587,717	601.660	
Annual percentage rate of growth	3.4	7.5	8.4	8.0	6.2	6.4		3.0	2.1	2.4		5.6
Employees per establishment	22	26	33	42	43	47	49	50	49	50	49	
Annual percentage rate of growth	1.7	4.9	4.9	0.5	4.0	4.3		-2.0	2.0	-2.0		2.5
Value of gross output £'000,000	70	116	194	341	610	1,141	1,268	1,240	1,345	1,413	1,503	
Annual percentage rate of growth	5.2	10.8	11.9	15.7	13.3	11.1		8.5	5.1	6.4		9.7
Gross output per establishment £'000	10	13	20	33	44	69	77	81	83	88	89	
Annual percentage rate of growth	3.3	9.0	10.5	7.5	9.4	11.6		2.5	6.0	1.1		6.8
Value of net output £'000,000	31	53	87	158	266	497	519	503	538	579	616	
Annual percentage rate of growth	5.5	10.4	12.7	13.9	13.3	4.4		7.0	7.6	6.4		9.5
Index of volume of gross output, 1934-5 = 100	60.2	100.0	166.5	293.4	584.4	981.2	1090.4	1066.1	1156.4	1215.6	1292.9	
Annual percentage rate of growth	5.2	10.7	12.0	15.6	13.3	11.1		8.5	5.1	6.4		9.7
Index of volume of gross output per establishment 1934-5 = 100	76.9	100.0	153.8	253.8	338.5	530.8	592.3	623.1	638.5	676.9	684.6	
Annual percentage rate of growth	3.3	9.0	10.5	7.5	9.4	11.6		2.5	6.0	1.1		6.8
Index of volume of gross output per employee 1934-5 = 100	92.3	100.0	124.0	159.4	207.9	297.5	315.7	324.1	344.7	352.5	367.2	
Annual percentage rate of growth	0.8	4.4	5.1	6.9	7.4	6.1		6.4	2.3	4.2		6.7

[a]Source: Norval, A.J., A Quarter Of a Century of Industrial Progress in South Africa, Juta & Co., Johannesburg, 1962.

percentage increase in total capital investment took place during 1953-4 and 1954-5, when the increase per establishment also reached its highest level. The percentage increase in total employment of labour reached its peak in 1948-9. This increase preceded the rise in investment and the output per employee which took place thereafter. This conforms to the pattern in which customs tariff protection was applied at the end of the war in 1945, but more particularly after 1948 when import control was introduced, coupled with the Board's insistence on proper costing being applied.[3]

The outbreak of the Second World War brought a fundamental change in the outlook of South African industrialists. The country being faced with a new supply problem, became conscious of its latent industrial potential. There was an increase in the use of scientific methods of production and management. Budgetary cost controls became common, aptitude testing and incentive bonus payments to workers were used, and the testing of products by the South African Bureau of Standards became a general practice. There was also an improvement in the packing of products with the latest methods. Industrial fairs were sponsored for national display of commodities. There was also a tying up, on a group basis, of industrialists with research programmes of the Council for Scientific and Industrial Research. The role of the latter will be explored in greater detail later. There were, above all, courses on industrial organisation and management offered to managers and industrialists, and the employment of industrial and cost consultants increased

[3] Union of South Africa: "Investigation into manufacturing industries," Board of Trade and Industries, Report 282 (Cape Town: Cape Times Ltd. Press, 1945), paragraphs 426-438 inclusive.

during this period. It can, therefore, be said that this was a period during which a dynamic foundation for reaching foreign markets was being laid.

The increase in the use of local raw material by secondary industries during the period starting from 1924-5 to 1955-6 is contrasted with the changes in the use of imported inputs during the same period. This is reflected in Table 2.

It will be seen from Table 2 that in 1924-5 imported materials constitute 50.8 per cent of all material used and the rest were South African. In 1955-6 the percentage of imported raw materials had decreased to 33.6 per cent and the local material increased to 66.4 per cent. The highest percentage use of local material was by food industries which in 1924-5 used 36.8 per cent. In 1955-6 this percentage had come down to 24.3 per cent over the years. The metal and engineering group took only one per cent of the 49.2 per cent of the local materials used in 1924-5, but in 1955-6 this group took no less than 13.9 per cent of the 66.4 per cent of the local materials used during that year, which again points to the development in that group of industries during the interval. Much as percentages vary from industry to industry, they all point to the direction of a greater measure of self-sufficiency in the supply of local raw materials to processing industries.

A breakdown in gross output of secondary industries for the years 1924-5 to 1956-7 is shown in Table 3. From the cost analysis given in Table 3, it will be seen that the two most important cost items are raw materials, salaries and wages. It is interesting to note that the percentage that salaries and wages constitute has steadily declined whilst

TABLE 2[a]

INDUSTRIAL USE OF RAW MATERIALS

Private Industry

	1924-5 £'000	1924-5 % of Total	1934-5 £'000	1934-5 % of Total	1939-40 £'000	1939-40 % of Total	1944-5 £'000	1944-5 % of Total	1948-9 £'000	1948-9 % of Total	1953-4 £'000	1953-4 % of Total	1954-5[b] £'000	1954-5[b] % of Total	1955-6[b,c] £'000	1955-6[b,c] % of Total
All materials...	35,878	100.0	59,866	100.0	101,182	100.0	174,842	100.0	331,356	100.0	613,157	100.0	679,673	100.0	716,307	100.0
Imported materials	18,233	50.8	26,972	45.1	45,588	45.1	61,329	35.1	147,475	44.5	221,657	35.5	236,632	34.8	241,001	33.6
S.A. materials (total)	17,645	49.2	32,894	54.9	55,594	54.9	113,513	64.9	183,881	55.5	391,500	62.6	443,041	65.2	475,305	66.4
S.A. materials used by the following industries:																
I. Raw materials	1,093	3.0	871	1.5	1,464	1.4	3,759	2.1	6,762	2.0	13,105	2.1	14,918	2.2	15,912	2.2
II. Stone, clay, etc.	218	0.6	517	0.9	1,130	1.1	2,048	1.2	3,801	1.1	8,414	1.3	10,094	1.5	12,318	1.7
III. Wood...	268	0.7	361	0.6	1,214	1.2	3,523	2.0	3,530	1.1	7,821	1.3	9,653	1.4	10,210	1.4
IV. Metals, engineering, etc.	362	1.0	3,550	5.9	7,594	7.5	16,460	9.4	28,671	8.7	82,625	13.2	97,758	14.4	99,825	13.9
V. Food, drink, etc.	13,220	36.8	20,202	33.7	30,604	30.2	57,244	32.7	79,677	24.0	147,153	23.5	159,032	23.3	174,232	24.3
VI. Clothing, textiles, etc.	72	0.2	260	0.4	450	0.4	2,084	1.2	4,091	1.2	17,943	2.9	20,195	3.0	21,539	3.0
VII. Books, printing, etc.	5	-	23	-	240	0.2	1,066	0.6	1,678	0.5	6,022	1.0	8,751	1.3	10,993	1.5
VIII. Vehicles, etc.	133	0.4	384	0.6	880	0.8	775	0.4	3,738	1.1	11,885	1.9	16,075	2.4	14,833	2.1
IX. Ship-building, etc.	0	-	1	-	0	-	36	-	19	-	306	0.5	184	-	323	-
X. Furniture	57	0.2	120	0.2	233	0.2	1,696	1.0	2,670	0.8	5,896	0.9	7,046	1.0	7,193	1.0
XI. Chemicals	949	2.6	916	1.5	2,278	2.3	6,761	3.9	14,296	4.3	30,392	4.9	35,124	5.2	38,376	5.4
XII. Surgical instruments	0	-	1	-	0	-	17	-	10	-	57	-	100	-	133	-
XIII. Jewellery, etc.	8	0.2	868	1.4	942	0.9	2,476	1.4	3,568	1.1	6,297	1.0	6,854	1.0	7,304	1.0
XIV. Heat, light and power	102	0.3	893	1.5	2,426	2.4	3,674	2.1	3,657	1.1	4,216	0.7	5,634	0.8	5,908	0.8
XV. Leather and leatherware	1,132	3.2	1,349	2.3	2,337	2.3	5,887	3.4	6,467	2.0	11,829	1.9	11,435	1.7	11,466	1.6
XVI. Building and contracting	4	-	2,545	4.3	3,733	3.7	5,322	3.0	20,370	6.1	33,424	5.3	34,770	5.1	39,413	5.5
XVII. Other industries...	20	0.1	33	0.1	69	0.1	682	0.4	877	0.3	4,116	0.7	5,419	0,8	5,327	0.7

[a]Source: Norval, A.J., A Quarter of a Century of Industrial Progress in South Africa, Juta & Co., Johannesburg, 1962.

[b]Materials used available with effect from 1954-5 but not breakdown in respect of imported and South African materials. Breakdown reflected represents materials and packing materials purchased.

[c]Not comparable with 1954-5 in view of exclusions referred to Table IV.

the percentage which raw materials make out of gross output has steadily increased over the years. This would seem to point to a better utilization of machinery and labour. The cost of fuel, light and power shows a sharp fall after the forties and lately has remained on a steady level of around 2.6 to 2.7 per cent. No doubt, the low cost at which electric power is generated and sold is largely responsible for the reduction in this cost item. It nevertheless remains insignificant in comparison with such cost items as raw materials and salaries and wages. The remaining expenses and profits have, as Table 3 shows, remained on a fairly even keel although during the past few years they have somewhat declined. Which of the sub-items are responsible for this decline is not possible to determine without a detailed analysis, which cannot be made from available statistical data.

Table 4 gives a series of net output to indicate in value terms the growth of private industries since 1924-5.

Table 5 illustrates nine classes of industry whose importance lies in their dominant role as contributors to the Net National Income.

From Table 5 it will be seen that the net output of the nine industries constituted no less than 88.0 per cent of the total net output of all the seventeen industries in the year 1957-8. Of the nine classes, metal and engineering were by far the most important. Their share was not less than 24.2 per cent, which had increased from 17.2 per cent in 1924-5.

The foundation on which the development took place was the establishment of the iron and steel industry in the early thirties, and the favourable price at which steel is at present being supplied in South Africa in comparison with other parts of the world.

TABLE 3[a]

ANALYSIS OF GROSS OUTPUT OF SOUTH AFRICAN INDUSTRIES

Private Sector

	1924-5	1934-5	1939-40	1944-5	1948-9	1953-4	1954-5	1954-5[f]	1955-6	1956-7	1957-8	1958-9[g]
Gross output £'000	69,976	116,267	193,605	341,165	609,748	1,140,949	1,267,926	1,239,671	1,344,669	1,413,461	1,503,314	1,386,652
Materials used £'000 ..	35,878	59,866	101,182	174,842	331,356	613,157	749,661	736,655	806,850	834,506	885,046	815,318
Percentage of gross output	51.3	51.5	52.3	51.2	54.3	53.7	59.1	59.4	60.0	59.0	58.9	58.8
Salaries and wages £'000	15,667	26,100	39,174	80,321	139,331	242,122	265,012	250,414	267,499	283,602	292,913	277,295
Percentage of gross output	22.4	22.4	20.2	23.5	22.9	21.2	20.9	20.2	19.9	20.1	19.5	20.0
10% Depreciation on plant & equipment £'000	2,097	3,116	4,623	6,161	10,938	23,741	28,347 36,064[c]	27,870	35,059 39,924[d]	38,257 47,453[e]	40,843	-
Percentage of gross output	3.0	2.7	2.4	1.8	1.8	2.1	2.2	2.2	2.6	2.7	2.7	-
Fuel, light and power £'000[b]	3,029	3,762	5,718	8,312	12,734	30,305	33,953	32,795	36,666	37,641	-	-
Percentage of gross output	4.3	3.2	3.0	2.4	2.1	2.6	2.7	2.6	2.7	2.7	-	-
Balance (other expenses & profits) £'000	13,305	23,423	42,908	71,529	115,389	231,624	224,906	224,732	235,261	257,096	284,512	-
Percentage of gross output	19.0	20.1	22.2	21.0	18.9	20.3	17.7	18.1	17.5	18.2	18.9	-

[a]Source: Norval, A.J., A Quarter of a Century of Industrial Progress in South Africa, Juta & Co., Johannesburg, 1962.

[b]Included in materials used w.e.f. 1954-5.

[c]Actual depreciation £25,562,097 plus 10% on electricity generating stations £10,502,535.

[d]Actual depreciation £27,693,475 plus 10% on electricity generating stations £12,230,633.

[e]Actual depreciation £32,264,916 plus 10% on electricity generating stations £14,614,336 plus 10% motor industry £573,853.

[f]See note to Table IV.

[g]Motor industry not included.

\- Not available.

TABLE 4[a]

GROWTH OF NET OUTPUT[b] 1924-5 to 1958-9[c]

Private Sector

Year	Value in £1,000
1924-5	31,069
1934-5	52,529
1939-40	86,705
1944-5	158,010
1947-8	265,657
1953-4	497,487
1954-5	518,758
1955-6	537,806
1956-7	578,930
1957-8	615,688
1958-9[c]	571,167

[a]Adapted from A.J. Norval, Industrial Progress in S. Africa, Table IV, cf. Table I.

[b]The following activities are excluded with effect from year 1955-6: (i) manufacture mainly for consumption on the premises, i.e. ice cream made in cafes; (ii) grain mills and saw mills by farmers at their own convenience and by retail stores for customers; (iii) repair and service work carried out by commercial dealers, mines in their own workshops, cold storage not connected with manufacture. For comparative purposes, therefore, the 1954-5 census data was adjusted so as also to exclude the above-mentioned activities.

[c]Motor Industry not included.

TABLE 5[a]

NET OUTPUT OF EACH CLASS AS A PERCENTAGE OF TOTAL NET OUTPUT

Private Sector

	1924-25	1934-35	1939-40	1944-45	1948-49	1953-54	1954-55	1954-55[b]	1955-56	1956-57	1957-58
Metals, engineering, etc.	17.2	18.1	20.8	23.3	21.8	25.5	25.4	23.4	23.4	24.1	24.2
Food, drink, etc.	25.8	21.6	19.5	18.6	15.5	14.3	13.5	13.8	14.2	14.0	14.6
Clothing, textiles, etc.	5.0	8.0	7.6	10.6	11.0	10.7	10.2	10.5	10.1	10.1	9.5
Vehicles, etc.	3.4	5.6	5.2	3.2	6.5	6.3	6.8	7.0	7.0	7.8	8.3
Building and contracting	10.2	8.5	7.5	5.3	9.2	8.2	8.1	8.4	8.6	7.8	8.1
Chemicals	7.6	7.1	7.9	8.1	7.0	7.0	6.8	7.1	6.9	7.8	7.7
Books, printing, etc.	9.0	7.7	6.5	5.6	6.7	5.8	5.9	6.1	6.6	6.8	6.5
Stone, clay, etc.	5.6	6.3	5.3	4.7	5.1	5.5	5.4	5.6	5.7	5.3	5.2
Heat, light and power	4.2	6.0	7.5	5.7	3.4	3.1	4.4	4.6	4.2	3.9	4.0
Total for these 9 classes	87.9	89.0	88.0	85.0	86.2	86.5	86.7	86.3	86.9	87.6	88.0

[a]Source: A.J. Norval, A Quarter of a Century of Industrial Progress in South Africa (Johannesburg: Juta & Company, 1962), p. 9.

[b]See noteto Table IV.

The second most important class in 1957-58 was food and drinks, whose share was 14.6 per cent, which declined from 25.8 per cent in 1924-5 despite the phenomenal development in engineering industry during and after the Second World War. Clothing and textiles come third, from the seventh position in 1924-5, followed by vehicles which were at the bottom of the list of nine in 1924-5.

Table 6 shows regional distribution of industries by their percentage contribution to gross output of the Republic's total. From Table 6 it will be seen that the greatest concentration of industries is found in the Southern Transvaal, which was responsible for no less than 49 per cent of the total gross output of the country in 1954-5, and for employment of 44.7 per cent of the total number of employees in the private sector of industries in the country in the same year, as compared with 15.2 per cent of gross output and 14.0 per cent employees in the Cape Western area, 11.7 per cent and 10.5 per cent respectively in the Durban-Pinetown complex, 7.3 per cent and 5.8 per cent respectively in Port Elizabeth and 16.8 per cent and 23.4 per cent in the rest of South Africa.

The foregoing tables, bearing on development of individual industries, demonstrate the progress of the economy. To broaden this picture, it will be necessary to discuss the development of particular industries and the role of the government in initiating them.

<u>Development of Particular Industries</u>

(a) <u>Iron and Steel Industry</u>:

A well developed iron and steel industry is generally considered as basic to the industrialisation of an economy. This happens to be very

TABLE 6

REGIONAL DISTRIBUTION OF INDUSTRIES

Brivate Sector

Area	1924-5	1934-5	1939-40	1944-5	1948-9	1953-4	1954-5
Cape Western Area:							
1) % of Republic's Gross output	21	16.7	16.5	16.9	17.2	14.6	14.8
2) % employment of Union total working force	18.3	16.2	16.6	16.2	16.2	14.0	14.0
Port Elizabeth and Uitenhage:							
1) % of Republic's Gross output	4.9	7.6	8.6	5.0	8.4	7.8	8.2
2) % employment of Union total working force	5.2	5.1	4.8	4.2	5.9	5.7	5.8
Durban and Pinetown:							
1) % of Republic's Gross output	12.5	11.7	12.3	13.5	13.4	13.0	13.4
2) % employment of Union total working force	11.8	10.3	10.8	11.6	10.8	10.7	10.5
Southern Transvaal:							
1) % of Republic's Gross output	34.9	42.6	42.6	44.5	42.4	44.1	44.1
2) % employment of Union total working force	34.0	44.9	44.6	45.5	44.8	45.7	44.7
Rest of South Africa:							
1) % of Republic's Gross output	26.7	21.1	20.0	20.1	18.5	20.5	19.5
2) % employment of Union total working force	30.7	23.5	23.2	22.5	22.2	24.6	23.4

Source: Bureau of Census and Statistics as adapted from A.J. Norval, *Industrial Progress of S. Africa* (Johannesburg: Juta & Company 1962), p. 10.

Note: Comparable data after 1954-5 not readily available.

true in the South African case. Since the early eighties of the last century, various experiments were made to produce steel in South Africa, but apart from useful experience and knowledge gained, these were not very successful. The first to produce steel on a commercial basis was the Union Steel Corporation (S.A.) Ltd., at present known as USCO, from a 10-ton open hearth furnace in 1913.[4]

After the First World War the country became very conscious of the need for developing a sound iron and steel industry. Thus in 1922, the Iron and Steel Industry Encouragement Act was passed by the Government, making provision for the payment out of Consolidated Revenue Fund or bounties in respect of pig iron and steel produced in South Africa from ores mined locally. These bounties were paid only if the plant was capable of producing at least fifty-thousand tons of pig iron or steel per annum. No producer qualified for bounties until after 1928. Between 1928 and 1933 an amount of just under fifty-thousand pounds was paid to New Castle Steel Works, a branch of USCO. These works were closed down in 1933 and the 'Bounties Act' then lapsed after various extensions.

(b) <u>South African Iron and Steel Industrial Corporation Ltd.</u>:

In 1927 a Bill was introduced in the South African Parliament to promote the development of iron and allied industries within the Union. This Bill became law in 1928. The object of the Government was to create a mixed or semi-state industry in which broad control would be accompanied by the widest possible public participation. The normal operations of the corporation were left in the hands of the board of

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[4]ISCOR: "Steel in South Africa 1928-1953" (published on the occasion of the Silver Jubilee of ISCOR) cited by A.J. Norval, <u>A Quarter Century of Industrial Progress in South Africa</u> (Johannesburg: Juta & Company., 1962), p. 13.

directors, who would assume full responsibility for the affairs of the corporation.

The Act provided for an initial capital of £3,500,000 consisting of £500,000 Government held 'A' shares and £3,000,000 'B' shares to be offered for public subscription. The participation of the public was most disappointing and the Government was bound to take up the bulk of shares in addition to the 'A' shares.

The work of site clearing began in 1930 and early in 1934 the blast furnace was blown in and soon after the first steel was tapped from an open hearth furnace. This marked the beginning of an unpredictable era in the economic development of South Africa.

ISCOR, as this undertaking is known, had initial problems, and was at the outset faced with competition from Western Europe, in particular, by way of dumping through a steel cartel. To counter this disruptive competition, a provision was made in Customs and Excise Amendment Act of 1936 for special duties on iron and steel products. The Act empowered the Minister, after a report by the Board of Trade and Industries, to determine a price on board ship at any port of discharge in the Union of any iron or steel products of a class or kind manufactured in the Union and, if found to be in the public interest, to levy a special duty if such iron or steel products were imported at a c.i.f. price which was less than the price determined by him, provided this price did not exceed the fair average price on world markets, plus normal incidence and freight charges, up to the point of discharge. This was known as the C.I.F. Scheme.

ISCOR's competitive position vis-a-vis the outside world changed rapidly with the outbreak of the Second World War in 1939. From then on under capable and energetic management it went from strength to strength. By 1937, the productive capacity of 180,000 tons originally envisaged had to be increased through expansion which increased the output from two blast furnaces to over 330,000 tons per annum.[5] With the urgent demand created through the war and the demand for special steel, plans were made to establish a second fully integrated steel works at Vanderbylpark, some 75 miles from Pretoria. These plans, apart from a plate mill, did not come to fruition until the end of 1950. Meanwhile production in Pretoria had risen to well over 600,000 tons per annum. Within the next two years the output of the two works at Pretoria and at Vanderbylpark for the first time exceeded the million ton mark. Since production has been stepped up further in 1960, it exceeded 1,700,000 tons per year. In the meantime, the ISCOR Board had decided to embark on a great expansion and modernisation scheme directed at increasing capacity to some 2,350,000 tons per year.

Through the management of the corporation keeping in close touch with developments that took place in the iron and steel industries of the leading industrial countries, the respective plants erected at Pretoria and Venderbylpark are representative of an embodiment of some of the most progressive techniques in the world. At these, the vast bulk of large range iron and steel products, to meet the requirements of the country, are produced.

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[5] ISCOR, Annual Report 1960, as cited by A.J. Norval, op. cit., p. 14.

It is noteworthy that ISCOR controls known reserves of over 80 million tons of high-grade ore and of much larger quantity of lower grade ore at a distance of 155 miles by rail, coming from a known source of over 400 million tons of ore with more than 60 Fe. some 480 miles away by rail.[6] Thus it has a sizeable control over its raw materials.

ISCOR is associated with a number of companies in closely allied fields. It has the controlling interest in the Union Steel Corporation (S.A.) Ltd., the oldest and the next largest steel producing concern in the country. Along with a number of special steels this concern also produces copper rod, wire and strip and also aluminium products from imported aluminium ingots. It in turn has subsidiaries as South African Bolts and Nuts, and the African Disc Company, both manufacturing companies of respective steel products.

ISCOR is also associated with and controls the Vanderbyl Engineering Corporation (VECOR). This corporation undertakes the manufacture and installation of such heavy industrial equipment as winding gear for mines, cement plants, crushing and grinding plants, condensing plants, paper and pulp mill equipment, boiler plant equipment, iron and steel industrial equipments, cranes and similar structures. VECOR also undertakes the installation and commissioning of complete projects.

ISCOR is further associated with African Metal Corporation which produces pig-iron, ferro-manganese and some ferro-chrome. It is the leading producer of ferro-alloys and concluded a very substantial long term contract with Japan at the close of the fifties.[7]

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[6] Ibid., p. 17.

[7] Ibid.

It can be safely concluded that this industry (ISCOR) is of basic importance to South Africa. There is hardly a sector in the country's economy which ISCOR's activities do not permeate to a greater or lesser extent, having regard to the significance of steel and steel products as basic to a developing economy such as that of South Africa, with its extensive agricultural, mining and manufacturing activities. Fortunately, the management of ISCOR has always been conscious of the Corporation's historic background and its creation as a state enterprise run on ordinary business principles. It has always been the policy of the corporation to supply the country with its iron and steel requirements at prices compatible with sound business.

(c) Engineering and Metal Industries:

South African engineering and metal industries are based on the strength of the iron and steel industries. Up to the time that ISCOR came on the market with a supply of steel in the thirties, the engineering industry in South Africa was little more than a jobbing and maintenance industry with little local manufacture. From then on a steady transportation began. It is A.J. Norval's contention that the local iron and steel industry became a decisive factor by providing the engineering industries with a wide range of basic raw materials, which once ISCOR was firmly established, became considerably cheaper than imported materials. The growth of this industry can best be expressed in his words:

> Reviewing the twenty-five years of development in metal industries from 1934 to 1959, five periods of about five years each can be distinguished. In the period beginning in 1934 when ISCOR started production up to the outbreak of war in 1939 the engineering and metal industries expanded rapidly, the number of establishments rising by a third from 750 to more than 1,000, employment nearly doubling to more than 40,000 and output more

than doubling. In the war years from 1939 to 1945 the number of establishments increased by only about 150, but employment again nearly doubled, reaching 76,000 and output--taking into account a 50 per cent increase in the price level rose by about 60 per cent. The second half of the forties witnessed an explosive increase in the number of establishments by many hundreds or about 80 per cent in 5 years. At the same time, employment grew from 76,000 to 111,000 and the physical volume of output rose by about two thirds.[8]

The outbreak of the Korean War gave this industry a further impetus. According to Norval, between 1950-55 employment increased by 30 per cent whilst output measured in physical quantities increased by not less than two-thirds. There are however indications that for the latter part of the decade increase was steadier, with employment increasing at 15 per cent, whilst output was higher by about a quarter.[9]

(d) <u>The Chemical Industry</u>:[10]

Like the iron and steel industry the chemical industry had its early beginnings in the days of the Transvaal Republic. This industry, however, struck root earlier. The discovery of diamonds and gold in the seventies and eighties, respectively, of the last century led to the need for explosives. These were first met by way of imports but due to unfavourable conditions accompanying their importation, it was decided that they be produced locally. The first factory to produce explosives was built at Modderfrontein in the Transvaal, by a company called De Zuid-Afrikaansche Fabrieken voor Ontplofbare Stoffen in the early nineties and commenced to produce explosives in 1895. This factory was taken over by the British South African Explosives Company Ltd. in 1902 under whose control it remained until 1918.

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[8] Ibid., p. 18.

[9] Ibid., p. 22

[10] Ibid., p. 28.

To combat the monopoly enjoyed by the Modderfontein factory, De Beers Consolidated Mines Limited established a factory in the Cape at Somerset West under the name Cape Explosive Works Ltd. This factory commenced production in 1903. This was followed by a third explosives factory established by Kynoch Limited of Birmingham, England, at Umbogintwini in Natal in 1908.

Nobel Industries Limited of London, through Explosives Trades Limited, formed in 1918, acquired control of the British South African Explosives and Kynoch Companies. In 1920 the manufacture of explosives at Umbogintwini was suspended and transferred to Modderfontein. In 1924, as a result of an agreement between Nobel Industries Limited and De Beers Consolidated Mines, a new company, African Explosives and Industries, was formed to purchase the Modderfontein and Umbogintwini factories and to share the capital of Cape Explosives Works. In 1944 the name of the company was changed to African Explosives and Chemical Industries, Limited. Today the equity of this concern consists of £25,000,000 authorized and issued share of capital, made up of £22,000,000 ordinary shares of £1 each and 3,000,000 5½% cumulative preference shares of £1 each. These are held jointly by Imperial Chemical Industries, Limited and De Beers Industrial Corporation, Limited.

The activities of African Explosives and Chemical Industries, Limited which were originally designed to meet the explosives needs of the diamond and gold mining industries, in course of time developed to cater for the needs of coal and metalliferous mining in general and also for the fertilizer requirements of the country. In its price policy it kept the interests of consumer users in the foreground. In the case of explosives, long term contracts are entered into with members of the

Chamber of Mines and other large users for the supply of explosives at fixed margins. The prices at which this is done are supposed to be the lowest in the world. In the supply of fertilizers to farmers its aim has been to encourage the use of fertilizers to the maximum by price reduction. This is forcibly demonstrated by the drop in prices between 1925 and 1935 when the price per short ton Super-phosphate fell from £5. 5. 0d. to £3.

With the large scale development of secondary industry in South Africa, the activities of African Explosives and Chemical Industries, Limited, while still mainly directed to the service of mining and agriculture have been fashioned to cater also for the needs of that section of secondary industry which falls naturally within the sphere of the manufacture of industrial chemicals. This is demonstrated by the research work undertaken by this concern in a research department, in which over 2000 research workers are engaged and in which about £400,000 is spent annually on research into such fields as explosives, fertilizers and their application, agriculture and pest control industrial chemicals, both inorganic and organic, chemical engineering and analytical researches generally.

The wide range and extent of the products manufactured by African Explosives and Chemical Industries, Limited, include explosives and explosive accessories approximating £15,000,000 per annum in which practically the total requirements of the country are met and a substantial percentage exported; acid--sulphuric, hydrochloric and citric, ammonia products, cyanide, chlorine and allied products, polyvinyl chloride, fertilizers, in regard to which the company is the oldest and largest single producer. Until quite recently, it produced 75% of the country's requirements. It also produces plant production products, leather-cloth and allied products. The total value of output of these respective products amounts to £30 million per annum.

Through Imperial Chemical Industries of the United Kingdom a major shareholder in African Explosives and Chemical Industries, Limited, the latter is linked to one of the largest chemical concerns in the world. Through its association with the research conducted by this vast organisation, African Explosives and Chemical Industries, Limited, is kept in the fore-front of the latest developments in the whole of the chemical field. South Africa, like other small countries such as Sweden, has found this to be of lasting benefit since research expenditures are so high. Were it not for this link with the Imperial Chemical Industries, we might very well wonder as to the degree of success that would have accompanied the research effort of African Explosives and Chemical Industries.

The above-mentioned industries should illustrate the degree to which the Government of South Africa actively influenced the growth of the South African economy. The list of industries falling into this category may be prolonged.[11] Though their development may be of interest, the most significant aspect of these industries is that they emerged out of a felt need whenever private capital was not forthcoming, the government initiated these industries with the hope that as the economy grows, the corporations will fall into private hands. A few of these may be briefly

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[11] Norval provides a fairly detailed account of all the major semi-public corporations. His study should provide a useful guide to anyone interested in the evolution of these corporations whose effect on the economy should not be under-estimated.

considered as follows:[12]

(i) The Industrial Development Corporation (I.D.C.) which was established by the government in 1940 to assist in the promotion and development of secondary industry on an economic basis through the provision of capital. This provision of capital was to be by means of loans, preference or ordinary shares. The I.D.C. entertains applications from both large and small concerns, and welcomes, in particular, propositions for finance which are repayable within reasonable periods. Notable among its larger investments are South African Coal, Oil and Gas Corporation, Phosphate Development Corporation, Fine Wool Products of South Africa Limited, Good Hope Textiles Limited, South African Industrial Cellulose Corporation and Phillips Carbon Black. The corporation is also active in the financial field, especially in the provision of medium-term credit for the financing of capital goods exports and, through its associate company, Industrial Finance Corporation, funds are freely available for large-scale projects.[13]

(ii) South African Coal, Oil and Gas Corporation (SASOL)[14] is financed by the Government through the I.D.C. It was formed by the Government in 1950 and by 1954 it came into operation. Production is based on nearby deposits of coal estimated at 600 million tons. In 1964 Sasol had 5,000 employees and was supplying about 8 per cent of the

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[12] Union Acceptances Ltd., Scope for Investment in South Africa (Johannesburg: The Stock Exchange, April, 1964), p. 31.

[13] Ibid.

[14] Ibid., p. 11.

country's motor spirit requirements.[15]

(iii) Phosphate Development Corporation (FOSKOR), like Sasol, is financed by the I.D.C. It was formed as a result of wartime difficulties in the importation of essential rock phosphates.[16]

(iv)Klipfontein Organic Products was also established as a result of wartime requirements and was continued as a government enterprise to provide basic insecticides and other chemicals used by private manufacturers. In addition, it was expected to undertake research into pest, fungus and weed control.

The detailed description given of the development which has taken place in certain specific industries reflects, we may speculate, how such industries have grown in stature over the years, and how they have accordingly adjusted themselves to the dictates of a changing economy.

Industrial Research

The picture of South African growth is incomplete without the mention of technical aid given to industry by the Government. In this respect, outstanding institutions are the Council for Scientific and Industrial Research, the South African Bureau of Standards and the Government Metallurgical Laboratories together with the Fuel Research Institute. Of these, the most important are the Council for Scientific and Industrial Research and the South African Bureau of Standards.

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[15]The process employed by Sasol in the production of oil from coal consists of the gasification of coal. This is done to obtain gas which is of uniform composition and purity. Thereupon, the gas, with the aid of a catalyst, is converted into petrol and other products.

[16]This corporation specialises in the production of phosphate fertilizers.

(a) Council for Scientific and Industrial Research:

This organisation was formed in terms of an Act of Parliament passed in 1945. The South African Government felt that protection of industries against foreign competition through the application of customs tariffs and subsidies were no longer sufficient. A much wider and more fundamental approach on a technical level was needed. This would require research carried out on a national scale in the interest of the economy as a whole, the results of which would be made available to industry and other sectors of the economy.

The Council maintains laboratories concerned with research in the chemical, physical and mechanical engineering, telecommunications, building construction, nutrition, road building, water utilization and personnel management fields. Scientific liaison offices are maintained in Washington, London and Cologne.

The Council grants financial support to five industrial research institutes which have been established by private interests, namely, the Fishing Industries, Leather Industries, Paint Industries, Sugar Milling and Wool Textile Research Institutes.[17] Research grants are also made to South African universities.

(b) The South African Bureau of Standards:

The Bureau of Standards was also established in 1945 by an Act of Parliament. Initially it was an independent institution, but in 1956, it was linked to the Council for Scientific and Industrial Research. The reason for linking the two was that their functions were considered closely aligned. It was later, however, decided that the link should be one of collaboration between two independent units.

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[17]M. du Preez, Industrial Profile of South Africa (Johannesburg: Da Gama Publications Ltd., 1963), p. 204.

The services of the Bureau of Standards include the drawing up of product specifications and code of practice, and the provision of routine product testing facilities in its laboratories.[18]

The growth of the Bureau has been fairly rapid. Shortly after it was established (1945), a staff of nine operated in only two laboratories. By 1962, it had 37 laboratories equipped with £1,500,000 worth of testing apparatus, and was staffed by more than 500 technicians and scientists.[19]

The significance of these public corporations (excluding Government Administration, Railways and other Public Utilities) becomes clearer if we bear in mind that in 1957 they had 47,000 employees who claimed £23 million out of £203 million of total annual government expense on wages and salaries.[20] Of the 47,000 employed, 22,500 were white.

It cannot be overstressed that the entry into the export market will make increasing demands for the application of up-to-date techniques in the manufacturing sector in particular and the economy in general. The foundation of this kind of technical progress seems firmly established. It is with this picture of the economy that we may proceed to examine some of the problems inherent in the South African economy.

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[18] Ibid.

[19] Ibid., p. 200.

[20] Ellison Khan, "Public corporations in South Africa," South African Journal of Economics, XXVII (December, 1959), 4, p. 280.

CHAPTER III

A CRITICAL APPRAISAL OF THE ECONOMY

"The legend that South Africa is a rich country possesses remarkable powers of survival."[1] It is true that South Africa possesses exceptionally rich mineral deposits. It is also true that industrial development has proceeded with great rapidity within the last twenty-five years. Yet reduced to the average standard of living of its people, no legend is less true. In 1961, the Gross National Product per capita in United States dollars was estimated at 427 as compared to 2,790 in the United States, 2048 in Canada, 1,475 in Australia and 1,470 in New Zealand.[2]

Comparative statistics stated above and the widespread poverty among native peoples of South Africa lead Franklin to the conclusion that (a) South Africa does not produce enough wealth, (b) the wealth produced is unevenly distributed, and (c) that South Africa's productivity is further inhibited by the mal-nourishment of its native population, which constitutes a large proportion of its working force.[3]

The inequitable distribution of income between whites and non-whites has its roots in the history of the country as already indicated earlier. It may be of interest, however, to observe that during the Second World War, real wages of both Africans and Whites increased considerably. L. Katzen estimates these increments at 55% and 67 per cent

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[1] N.N. Franklin, Economics in South Africa (London: Oxford University Press, 1954), p. 1.

[2] P.N. Rosenstein-Rodan, "International Aid for underdeveloped countries," Review of Economic Statistics, XLIII (1961), pp. 107-138.

[3] Franklin, op. cit., p. 1.

for Africans and Whites respectively for the period beginning in 1939 to the end of the war. It is his contention, however, that since the war, real wages of Africans have barely risen while those of white workers have increased by 40 per cent. The effect of this has been a further widening of the existing gap between skilled and unskilled wage rates.[4]

The structure of labour would seem to harbour a great deal of South Africa's economic ills; indeed, here, economic problems become inextricably confused with racial prejudices. In order to highlight the nature of the problem it will be advantageous to examine problems as found in each sector in turn and briefly review the proposed solution of the Government in an attempt to overcome these difficulties.

The Primary Sector

This comprises both agriculture and mining. It was the very foundation upon which the South African economy began. From the historical sketch already given in the first chapter, it would appear that this sector has to a large extent determined the race relations now found to permeate the entire industrial complex of South Africa.

Mining:

In 1947/7 mining contributed 11.6 per cent to the Gross National Product. In 1956/7 the contribution had risen to 12.7 and 1962/3 it was 13.1 per cent.[5]

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[4]L. Katzen, "The case for minimum wage legislation in South Africa," South African Journal of Economics, XXIX (September, 1961), pp. 195-6.

[5]South Africa Bureau of Statistics, quoted by Union Acceptances Ltd., Scope for Investment in South Africa (Johannesburg: Stock Exchange, Hollard Street, April 1964), p. 10.

South Africa is fortunate in possessing vast resources of commercially exploitable mineral deposits. Apart from gold, uranium and diamonds, more than sixty other base metals are mined, both for internal consumption by the iron and steel and other industries and for export.

Since gold mining occupies a dominant position in this sector and because of its leading role as a cost determining factor for the entire mining industry, the composition of its productive structure may very well represent to a large extent the rest of the mining sector; and the problems peculiar to it may be found perhaps in greater intensity in allied industries. It is for this reason that the writer feels justified in highlighting the nature of the problems encountered in this industry as representative, perhaps, of the industrial structure of the country.

C.W. De Kiewiet maintains that:

> Of the expenses involved in the extraction of gold the greatest single item in most years was for wages and salaries. In 1930 the value of gold won on the Witwatersrand Mines was £45,500,000, while the amount spent in wages and salaries was £15,726,173, exceeding the total of dividend and tax payments. In 1936 the amount expended in wages and salaries was £25,704,865. Where such large amounts were spent on labour it followed that the industry should seek to make most economical use of its labour force. The ability of the mining industry to draw upon the cheap labour of the native population was unquestionably the greatest single source of economy. How greatly the entire extractive industry, including the mining of coal and base metals, availed itself of cheap native labour was clearly evident in the fact that in the three widely separated years of 1915, 1925 and 1935 the percentage of European labour was 10.3, 10.7 and 10.76. In 1936 there were 394,323 non-European labourers in the entire mining industry out of a total of 441,413. The cheapness of native labour was most clearly revealed in comparative figures of European and Native earnings. In 1936 the salaries and wages of 47,090 Europeans in all mining industries of the Union amounted to £16,694,821 or an average of £345. 9s. 2d. per head, while the earnings of 394,323 non-Europeans were £12,483,258 or an average of £31. 13s. 2d. per head.

> This meant that the average European wage in mining was nearly twelve times as great as the average Native wage. Translated into the language of every day life these figures showed that mining depended upon a small group of highly paid White workers and a preponderant group of lowly paid Native labourers. In South Africa the organisation of mining labour rested upon two sharply separated levels of skill and reward, and the separation between the levels was marked and confirmed by the differences of race and colour. [6]

The situation has not changed fundamentally as the practice outlined above is enshrined in several Statutes of Parliament as will be shown later. There are, however, experiments with concentrated mining which have resulted in increased output, making increments in wages a feasible proposition.[7] Yet apart from low wage policy what is more unsettling is the nature of labour used in this industry, namely, migrant labour.

Professor D.H. Houghton made a study of some aspects of migrant labour which seem to underline the nature of the problem and its effects on productivity. He maintains that though migration of workers has occurred in many countries it was largely a sign that there existed some real or imagined difference between economic opportunities in different regions. He maintains that it is a sign of imbalance in the rate of economic development. Workers tend to move to areas where their labour can fetch a higher price. The cause of higher marginal revenue productivity of labour in certain areas may be the presence there of natural resources or of greater application of capital or more advance entrepreneurship or may be a combination of all three of these. This movement

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[6] C.W. De Kiewiet, A History of South Africa, Social and Economic, 8th edition (London: Oxford University Press, 1950).

[7] Royden Harrison, "Implications of Concentrated Mining," Optima, Vol. 13 (Johannesburg: Anglo-American Corporation of South Africa Ltd., December, 1963), p. 146.

tends to bring about a more efficient distribution of labour, and movement is likely to continue until the original imbalance has been rectified and an optimum combination of factors of production achieved. Although initially it may be only the younger and more enterprising who migrate, they settle in the new area and make their homes there, and thus a permanent shift of population occurs. So it was in the Industrial Revolution in Britain, and other countries have experienced a similar flow to towns as they in turn have industrialized.

The process of adjustment need not necessarily be brought about solely by the movement of workers, for a reverse movement of capital could achieve the same result. However, this occurs, the movement generally tends to bring about a balance or a state of equilibrium which removes tendency to further migration.

What is known as migratory labour in South Africa, however, represents a very different phenomenon. It indicates a movement of workers from areas of low productivity to where the employment opportunities appear to be better, but the majority of workers who migrate do not make their permanent homes in the industrial areas. They merely work there for a period and then return to their homes (tribal) in the reserves. Hence there is no permanent shift of population. When one man has completed his period of work he returns home and his place is taken by another migrant. There is, therefore, no tendency towards equilibrium and the migrations continue in perpetuity. Mass migrations have been going on for almost a century, and their magnitude has increased with the growth of the industrial centres and the increasing poverty and pressure of population in the reserves especially when we bear in mind the fact that these reserves constitute 13% of South African arable land.

It is not easy to determine how many migrant workers there are, because in spite of all the machinery of registration and control, there are no official statistics of internal migration and the periodic censuses merely give a person's location on the night of the census. Professor Houghton cites the Tomlinson Commission as having estimated 503,000 males[8] as temporarily absent from the reserves at the time of the census in 1951.[9] They represent about 40% of males between the ages of 15 and 65 years. But, according to Houghton, the Commission rightly points out that practically every able-bodied Bantu man in the reserves goes out to work in industrial areas. Houghton estimated the total pool of migrant workers from the Bantu areas of the Union to be in the neighbourhood of 1,140,000. In addition, there were estimated to be some 420,000 extra-Union Native Migrant workers in the Union in 1951,[10] and, assuming the same ratio between numbers employed at any time and the pool from which they are drawn, they represent a further 1,000,000 men. It seems that over two million spend their lives circulating between industrial employment and their tribal subsistence economy. The gold mines depend heavily on this kind of labour. They come from as far afield as 2,000 miles and from all points of the compass.

Manufacturing industry and commerce also uses a number of these workers though estimates are difficult to make.

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[8] D.H. Houghton, "Some Aspects of Migratory Labour in South Africa," South African Journal of Economics, XXVIII (September, 1960), 3, pp. 177-178.

[9] Union of South Africa, Summary Report of the Commission for Socio-Economic Development of Bantu Areas within the Union of South Africa (Pretoria: Government Printer, 1955), p. 96, as cited by D.H. Houghton, op. cit., p. 181.

[10] Houghton, op. cit., p. 181.

The third main field of employment of migrant labour is farming in white areas. Practice differs widely in different parts of the country. In many parts the Bantu worker lives with his family upon the farm, and has lived there for generations. In other parts, the white farmers rely extensively on migrant male labourers who come to work on contract. The Tomlinson Commission estimated that there were some 210,000 extra-Union natives employed in agriculture in 1955.[11] They would all be migrant workers. There is, however, no information available on the number of Union natives who are migrant workers on white farms. We can speculate, however, that this number is not likely to be very large.

Houghton has summarised some of the consequences of the migrant labour system under the following sub-headings: (1) Quantitative waste, (2) Inability to acquire skills, (3) Labour turnover, (4) Effects of the system on management, and (5) General destabilizing effects of the system on economy.

The Tomlinson Commission attempted to estimate the loss of manpower involved in travel in periods of rest or unemployment, and in the relatively unproductive time spent in the reserves:

> Thus out of the total potential of 1,140,000 man-years (1 year's labour rendered by one man) available in Bantu areas (or somewhat less if 2 to 3 weeks' leave per year is allowed for) only 480,000 man-years are economically used, and of this latter total, only 433,000 man-years are applied in paid employment in the non-Bantu areas. This means that there are always on the average 600,000 man-years of labour available which are not economically applied. Much as it is possible to criticize details of this estimate it remains probably of the right order of magnitude. Moroever, it applies only to Bantu migrants from the Union, and if extra-Union migrants are included, the waste involved in the system would come to almost one million man-years per annum.
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> Then there is the cost of transporting 923,000 migrants to and from their homes. Even assuming that their homes are on the average only 300 miles from where they work and that their home

[11] Ibid., p. 182.

stint is 18 months, this would amount, according to Professor Houghton, to about 370,000,000 man-miles per annum. [12]

Perhaps even more important than the waste of man-hours and the cost of transport is the effect of the system upon the quality of that labour which actually finds its way to the mines, factories and farms. There are many aspects to this matter of quality, but the first to be noted is that from its very nature the migrant system tends to inhibit the acquisition of skills and tends to condemn the workers to being merely undifferentiated units of unskilled labour. The intermittent character of their employment means that just when they are becoming proficient at a particular job and of real value to their employer they leave to return to homes. The next employment is usually of a different kind in a different place. This kind of "birds of passage process," is not likely to induce excellence. There are, however, exceptional cases of continued service, that is, where the same man has intermittently served the same firm for fifteen to twenty years. Yet the overall picture remains one of considerable waste.

This leads to the whole question of labour turnover in industry. The Tomlinson Commission stated:

> Large firms in Johannesburg (apart from mines) are credited with having a labour turnover of 117 per cent per year or a replacement period of ten months. The shortness of this period may be due, however, to the fact that the results were obtained 12 or 15 years ago, when the turnover of labour was more rapid than at present and at war-time conditions were more conducive to change.[13]

But two recent surveys confirm what are presumably R.H. Smith's findings.[14] One of the surveys gives a labour turnover of 119 per cent[15] per annum

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[12]Ibid., p. 183.

[13]Union of South Africa, Summary Report of the Commission for Socio-Economic Development of Bantu Areas (Pretoria: Government Printer, 1955), p. 95.

[14]R.H. Smith, Native Urban Employment (Witwatersrand University, 1948) as cited by Hobart Houghton, op. cit., p. 184.

[15]Ibid.

in East London in 1956, and the other gives even a higher figure of 138 per cent per annum in Cape Town.[16]

The investigations in East London revealed great differences between the labour turnover of one firm and another and between the length of continuous services of one employee and another. Firms engaged in construction (where because of this work there tends to be a higher labour turnover than in manufacturing) varied from 96 to 600 per cent turnover per annum. In manufacturing the turnover of male native employees varied from 48 per cent per annum to 204 per cent per annum.[17] Viewed from the angle of length of service of employees, the disparities were even greater. Interest was aroused in this matter by the fact that in spite of a higher average turnover of native labour, many of the better firms stated that they found their native labour remarkably stable. The investigations revealed that over one-third of all native adult males had been in their existing jobs for three years or more; a remarkably stable element in the labour force. At the other end of the scale 10% had been in their jobs for less than three months.[18] These two groups together account for over a quarter of the whole and instances were found of individuals having as many as eight different jobs in a single year with periods of unemployment in between. It is the instability of this group of workers which brings up the overall average labour turnover.

It is important further to note that unstable groups exist both among urban workers whose homes are in the industrial area and among the

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[16] Sheila Horst, "Native Labour Turnover in the Cape," South African Journal of Economics, XXV (December, 1957), 4, pp. 314-315.

[17] Houghton, op. cit., p. 184.

[18] Ibid.

migrant workers. The unstable groups consisted largely of young unmarried men in both groups. It would seem that labour instability cannot be attributed entirely to the migratory system. Both migratory labour system and cheap labour policy are jointly responsible for the labour instability. More will be said later about the effects of the cheap labour policy. The mining sector tends to have a regular turnover since the system employed is that of periodic contracts. Yet like the rest of the economy it suffers from the effects of migratory labour.

The migratory labour system does not seem to have left management unscathed. With certain outstanding exceptions the general management of Bantu labour is slipshod and inefficient in the extreme.[19] This is a direct consequence of the migratory system and its twin policy of cheap labour, because a majority of employers have come to regard the Bantu worker as not worth taking the trouble. This attitude produces an equally irresponsible attitude among workers. They come and go, and when one leaves there is another to take his place. The better employers, who select their labour with care give adequate training and supervision, seldom complain about their labourers. These report themselves satisfied with the quality of labour and the turnover is low. The majority of employers, on the other hand, report adversely upon their native workers.

It should be realized that the mining industry depends almost exclusively on migrant labour, and the perpetuation of the system seems

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[19]Houghton seems to lay great emphasis on migratory labour system as such, without adequate emphasis on cheap labour which seems to have a great deal to do with the slipshod attitude of management in a way already described in the Introduction.

to rest on the disinclination of authorities to increase wages and the belief held that since mining is a wasting asset there should be no uprooting of natives from their environment with accompanying destruction of their tribal backgrounds. Its continuance is further supported by stringent influx control which regulates movement of natives to cities, partly to prevent unnecessary congestion and partly to ensure a steady supply of migrant cheap labourers.

Agriculture, Forestry and Fishing Industry:

Weaknesses manifest themselves mainly in agriculture. In the forestry and fishing division, suffice it to say that according to Muriel Horrell:

> The total area of plantation has almost doubled over the last twenty years (1936-46); and further large increases are likely since parts of Natal and Zululand have been found to possess mills and wood-board; paper mill and rayon factories have been established.
>
> There has been considerable developments too, in the fishing industry, and many factories exist to utilize the products, for example, those canning rock lobster, sardines, parlemoen, pilchards and other species of fish, or preparing frozen lobster tails, smoked cape salmon, dried fish, fish pastes, meal, whale oil, and so on.[20]

As a result of the discovery of diamonds and gold there were great developments in farming as large quantities of food were needed for the population of the new mining towns. Farmers gave greater attention to crop production; they began to use machines and fertilizers, and needed more labour. The establishment of canning, textiles, oil pressing and other industries provided a market for additional types of crops.

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[20] Muriel Horrell, South Africa's Non-White Workers (Johannesburg: South African Institute of Race Relations, September, 1956), p. 2.

The total value of agricultural and pastoral products was £343 million in 1953-54. Such products form a large proportion of South Africa's exports. The four items, wool hides and skins, wattle bark extracts and fruit alone accounted for just over a third of the total value of exports in 1954.[21] Yet underlying this performance are weaknesses which make agriculture the least productive of all sectors. It is Franklin's contention that productivity of labour employed in agriculture is low compared with productivity of labour employed in other South African occupations.[22] What is even more significant is that it is low compared with productivity of labour engaged in agriculture in many other countries.

Whilst it is true that international comparisons of crop yields, which ignore such factors as differences in soil fertility and amount of capital employed in conjunction with labour, may be misleading, such comparisons remain of considerable importance especially when we bear in mind L.H. Samuels' remark concerning farming in South Africa to the effect that: "In 1925, there were about 10 male African workers for every male white farmer."[23] As a result of the creation of markets;

> The growing dependence of farming activities on Non-White labour reflected both the increased movement of Africans to White-owned farms, and the exodus of white population from the rural areas. Many of the white farmers who left the countryside did so because of their inability to adjust themselves to the new economic conditions. They were found to fail, since the farming techniques with which they were familiar were only suited to the primitive methods of exploitation of large land-owners, dependent on adequate supply of Black or coloured labour. Thus there emerged a growing

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[21] _Ibid_., p. 2.

[22] Franklin, _op. cit_., p. 80.

[23] L.H. Samuels, _South Africa's Changing Economy_ (Johannesburg: South African Institute of Race Relations, 1955), p. 2.

class of rural poor, who tended to join the ranks of the landless whites. Each shock to the agricultural economy disturbed the loose hold of some of these agriculturalists on the land and sent a fresh wave of them into the towns. [24]

To crown it all, though in 1955 less than 20% of the white working population was engaged in agriculture, about one half of the Union's total working population was officially estimated as employed in farming, while its share in the National Income amounted to one-eighth of the total. Table 7 illustrates the phenomenon however imperfectly.

TABLE 7

COMPARATIVE YIELDS OF WHEAT AND MAIZE

(100 kg. per hectare)

	Wheat		Maize	
	1934-8	1944-49	1934-8	1946-9
Europe	14.2	12.6	14.9	12.7
North America and Central America	8.2	11.1	13.3	21.2
South America	9.5	11.1	15.3	14.5
Asia	9.7	9.0	11.2	10.7
South Africa	5.2	4.6	8.5	8.6
Africa (except S. Africa)	6.8	6.8	8.4	7.5
Oceania	8.3	9.8	15.4	17.6
World Total	10.1	10.4	13.5	16.0

Source: Food and Agricultural Organization, Food & Agricultural Statistics, Vol. IV (April-May, 1951, Table 3), 4, 5. Year Book of Food and Agricultural Statistics, 1949, 1, Production.

[24] Ibid., pp. 2, 3.

Soil deficiencies, and erratic pests combine to make farming in South Africa a particularly difficult undertaking yielding extremely uncertain results. The abundance of cheap labour seems to be another additional factor in arresting productivity, as it disinclines farmers from using mechanized methods and techniques.

Related to the above-mentioned problem are the Reserves currently called Bantu homelands. Originally these were those areas of South Africa which, after white conquest of the country, were not occupied by whites and in which the tribal way of life persisted relatively unchanged for some considerable time. The areas comprise the Transkei, parts of Ciskei, parts of Natal and parts of the Transvaal. Together they constitute about 13% of the total area of South Africa.

Several factors have combined to produce modern Bantustans: traditional communal ownership of land, the traditional adherence to cattle hoarding irrespective of the quality. In addition to this, 50 per cent of able bodied males are normally away at work at any given time.[25] These remaining are home to rest, whilst agriculture is left entirely to women. Though, according to Houghton, marriage itself appears to be remarkably stable, family life in a normal sense has been destroyed, and illegitimacy is very high. The absence of so many male adults from home accelerates decline in agricultural productivity, and a situation has arisen in which the Reserves are both over populated and lack sufficient able bodied labour to make use of available land.[26]

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[25] Houghton and E.M. Waton, The Economy of a Native Reserve, II (Pietermaritzburg: Shuter and Shooter, 1955)

[26] D.H. Houghton, L.H. Samuels and F.C. van N. Fourie, South Africa's Changing Economy (Johannesburg: South African Institute of Race Relations, 1955), p. 23.

Moreover, these areas are among the worst to be hit by soil erosion, which is a direct result of the use of cattle manure for fuel and over-stocking of man and beast. Their poverty is appalling. According to Houghton, the Keiskamahoek rural survey shows that 50 per cent of income is derived from earnings of emigrants to industrial areas.[27] Thus the Reserves represent the depressed areas of the South African economy and are a substantial drag upon its progress.

There is another aspect to the impact of South Africa's changing economy upon the Reserves. We noted earlier the development of the manufacturing sector, and this fact strengthens the need for reviewing attitudes towards survival of the tribal economy. When mining was the main industrial activity an uneasy accommodation was achieved through the migrant labour system. The mines were operated successfully by employing a large number of unskilled Africans as a permanent force of temporary migrant workers circulating between the mines and the Reserves. Wages were generally low because of low productivity of the migrant labour system, but this had no effect upon the market, for products of the mines were mainly for export. Within the growth of manufacturing industries, two major changes have occurred. First, in manufacturing, a stable labour force of semi-skilled operatives is essential, and there is no place for the temporary migrant worker because of his ineptitude in a modern factory, and the waste involved in a high labour turnover. Moreover, the cost in maintenance and repair of equipment has, according to Houghton, as a result of using untrained labour upon modern machinery, given rise to the South African version of the famous "Give us the tools and we will finish the job,"

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[27] Ibid., p. 26.

taking the tragic form of "Give the job and we will finish the tools."[28]

It is for these reasons that the same author aptly described the Reserves as "little better than a 'National Park' for the preservation of a primitive and inefficient system and, as such, a luxury that a poor country can ill afford."[29]

This weakness assumes even a more tragic character as will become clear towards the end of this chapter when we consider that the answer of the Government to the problem has been to enshrine the Reserves in statutes as the future homelands of the Africans in South Africa—a policy that flows from the official policy of the Government to keep races separate.

Secondary Sector

The declining importance of agriculture as a source of livelihood created serious problems, since there were limited outlets for the growing class of 'poor whites' in the more remunerative occupations. From the onset mining and ancillary activities have been organized on the basis of a small, highly paid white labour force and a large supply of African labour performing manual work at much lower rates of pay. This pattern of wages and employment arose because of the original scarcity of the artisan trading and professional classes, and has been perpetuated by legal and social conventions in the interests of the white group. Thus, it was not easy to fit the unskilled white worker into this peculiar economic organization, because of his lack of training and his habits of industry. Many became destitute and created an embarrassing problem of white poverty in a multi-racial society.

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[29] Ibid., p. 35.

Today, unemployment is insignificant among the white community, largely because of remarkable expansions of the fields of employment, particularly in the manufacturing and service industries.

Between 1918-19 and 1938-39, the net output of manufacturing expanded more than three times, and it has more than quadrupled again since 1939. Since the end of World War I, the number of white workers in factory production rose from about 54,000 to 255,000 in 1951-52. Total employment in manufacturing in 1955 amounted to some 800,000 as against 143,000 during 1918-19, accounting for 25% of the country's National Income compared with about 7% before the war of 1918.[30]

L. Samuels qualifies this development in the following way:-

> There can be little doubt of the vigorous role played by the State in accelerating the process of industrialization to mitigate urban white unemployment in the 'twenties' and 'thirties'. The measures it took included a 'civilized labour' policy aimed at enlarging the field of white employment, the establishment of undertaking such as power and iron and steel production and the adoption of a deliberate policy of tariff protection. Yet it is easy to over estimate the importance of these policies.
>
> South Africa enjoyed a number of advantages without which no tariff for example could have conjured manufacturing into existence. It has ample supplies of iron ore, cheap coal, and an immense variety of other raw materials. Moreover, the expansion of gold-mining and other primary activities increased the supply of capital resources and provided a growing market. As incomes have grown, an increasing proportion of disposable incomes has been diverted from food and other necessities to the purchase of services and manufactured products. These changes in consumption patterns created the conditions for an expansion of the industrial structure.[31]

He further claims that these developments have been reinforced by two world wars which provided South African industries with virtual freedom from any foreign competition. The post-war excessive demand and the protective policy made almost any production profitable. He also points out that much

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[30]*Ibid.*, pp. 3-4.

[31]*Ibid.*, p. 45.

as the contribution of this sector expanded substantially, the value of manufactured exports still amounted to perhaps one-fifth of the total exports in the mid-fifties.

The comments would indicate some serious flaws especially when it is borne in mind the post-war years experienced an immense inflow of capital from abroad. The weaknesses seem to be traceable to socio-political factors. In the Union, the expansionary process is taking place within a framework of custom and legislation which seeks to confine the use of African and other coloured labour. A legal colour bar pervades the economy and in this sector, operating largely through white trade union pressure, has prevented non-whites, particularly Africans, from being apprenticed and gaining access to the skilled trades. This has resulted in labour stratification into a series of non-competing groups.[32]

This peculiar economic organization should not be regarded as entirely rigid. During the post-war years the scarcity of labour compelled a considerable breach in the system. However, the opportunities for Africans to acquire skills remain limited. A complex structure of controls restricts their freedom of movement into urban areas and their right to acquire property in a property-owning society. These regulations together with prohibition of African Industrial Associations seem to have seriously hampered the quality of native labour. It removes political discipline and habits of industry essential for high productivity. The effects can be generally traced out in such terms as these:[33]

(a) Obstacles to making full use of labour raises the level of industrial costs.

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[32] Ibid.

[33] Franklin, op. cit., p. 191.

(b) Employers compelled to incur unnecessarily high costs must charge high prices.

(c) High prices are injurious to consumers and limit the market for products.

(d) Producing for an unnecessarily small market, employers produce an unnecessarily small output and demand less labour than they otherwise would.

Tertiary Industry

This sector is the largest contributor to the National Income. It includes Commerce and Transport, Public Authorities, Services, Finance, and so on. Whilst in 1946/7 it constituted 54% of the Gross National Product, in 1962/3 this was estimated at 51%.[34]

As might be expected, this sector would have some of the weaknesses found in the above sectors. It is from this one that estimates concerning the administrative costs of cheap labour in the form of police patrols for the enforcement of influx restriction, the administration of the elaborate laws and proclamations affecting migration to and from cities and other laborious instruments of native control can be assessed. Yet as the sector includes services and finances, figures available are usually published in a composite form. The size of the sector does indicate their share, this sector will diminish in size.

There are, however, problems in this sector which may be of interest purely from the developmental point of view. It will be noted that the long distances which separate markets combined with steep gradients between coastal and inland centres and a complete absence of navigable

[34]Union Acceptances Ltd., op. cit., p. 10.

waterways have raised transport costs which have not eased the process of development. Railways and Road Transportation play a very important role in connecting industrial centres.

The railway system of South Africa was based on the South Africa Act which embodied certain safeguards which were believed would ensure:[35]

(1) That political influence would be excluded, especially in so far as inland communities might be prejudiced thereby or certain coastal areas favoured at the expense of others;

(2) That railway rates would not be used as a means of taxation;

(3) That industrial and agricultural development would not be retarded by unnecessarily high transportation costs resulting from inefficiency or arbitrary discrimination.

These safeguards were embodied in South Africa which provided specifically that:

(1) "Subject to the authority of the Governor-General-in-Council, the control and management of the railways, ports and harbours of the Union shall be exercised through a board consisting of not more than three commissioners who shall be appointed by the Governor-General-in-Council, and a Minister of State, who shall be Chairman." (Section 126) [36]

(2) "The railways, ports and harbours of the Union shall be administered on business principles, due regard being paid to agricultural and industrial development within the Union, and promotion by means of cheap transport of the settlement of an agricultural and industrial population in the inland portions of all provinces of the Union." (Section 127) [37]

(3) "So far as may be, the total earnings shall not be more than are sufficient to meet the necessary outlays for working, maintenance, betterment, depreciation and the payment of interest on capital . . . . " (Section 127)[38]

[35]C.S. Ribhards and J.C. Laight, "South African Railways and the Newton Report," South African Journal of Economics, XVIII (December, 1950)/4,p. 385.

[36]Ibid., p. 386.

[37]Ibid.

[38]Ibid.

The interpretation of the act resulted in the Railway policy formation resting with the minister.

It followed from this that the rating policy of the Railway Administration, instead of being determined by an independent impartial authority on business principles as laid down by the Act of Union, was dictated by the Minister who possessed complete power to carry out whatever policy that he and his cabinet colleagues might think fit. It was this rating policy which the Newton Commission was appointed to investigate after several criticisms and controversial discussions from individuals and organisations. Among these was S.H. Frankel who carried out an investigation at the request of the Gold Producers' Committee of the Transvaal Chamber of Mines in 1927. This was followed by the Departmental Railway Tariffs Inquiry Commission of 1930. Then followed in 1945, the Report of the Board of Trade and Industries, then the Page Commission of Inquiry (1945) which was followed by the Government White Paper (May 1946): this was essentially a defence of the system.

It was, therefore, with the above background of argument and counter-argument that the Newton Commission was appointed.

The findings of the Newton Commission confirmed as justifiable the criticism levelled at the Railway management. These were as follows: That though the criticism of the tariff policy was not based on the fact that it discriminated, discrimination as a principle was itself open to serious objections. In particular,

(1) Much low-rated traffic was being carried at rates which did not cover actual terminal and haulage costs. In effect, therefore, this traffic was being carried at a loss, and was being subsidized by the small volume of high-rated traffic which paid more than average total costs.

(2) The classifications of goods was not based, as it should have been, on differential cost of conveyance and value in relation to weight. Many commodities included in the highest rate group were not luxuries, but essential industrial materials or ordinary household requirements, which did not require special facilities for transportation. A large proportion of high-rated commodities was conveyed at owner's risk, when the risk of damage was negligible and that of theft avoidable.

(3) The assistance given to agriculture,was no doubt justified under Section 127 of the South Africa Act. But this section lays down that due regard shall be had to industrial development as well, and the settlement of an industrial population as well as an agricultural population, in the inland portions of the Union. The existing rate structure actually penalises many industrial users of the railway, as well as the consumer. Discrimination between different sections of the community, if considered desirable, should be done openly by means of taxation and direct subsidies and not through railway tariff policy.

(4) Railway charges on coal conveyed from Witbank to the Witwatersrand were unreasonably high, whereas rates on export and bunker coal, as well as long hauls (e.g. Cape Town) were uneconomic, i.e. below the actual direct costs of haulage coal was carried in full truck-loads, the gradients were easy, loading and unloading were performed by the consignee respectively, the traffic was regular and non-seasonal and was carried at owner's risk. Further, coal was an essential raw material for industry and also entered into the cost of electric light and power. An average profit of 300 per cent appeared to have been made on coal traffic to the Witwatersrand. In 1925 the gold mining industry and the V.F.P. Company contributed approximately £500,000 more than the actual cost of conveying the gold consumed by them.

(5) Export rates (.e.g. on maize, maize-meal, fruit, etc.) were further examples of unfair discrimination. When the traffic moving from the coast to the interior considerably exceeded the traffic moving in the opposite direction, it was reasonable to expect the former to bear the cost of returning empty trucks to the coast and also to offer low rates to exporters to develop return traffic. By 1927 the outward traffic had come to exceed inward traffic, so that the reverse policy should have applied.

(6) If it was state policy to encourage exports, then the greatest export industry in the Union, viz. gold mining, should also have been encouraged. This could have been done by changing low rates on materials and stores consumed by the gold mines. In 1926, however, 65% of these essential requirements were conveyed at the three highest tariffs.

(7) Preferential rates on South African produce and manufactures were objectionable. Protection of domestic industries against foreign competition in the home market should be afforded through tariffs or subsidies. Preferential railway rates benefitted producers situated at the coast only so long as they sold in inland markets. Inland producers did not need such assistance when selling in inland markets, since they paid little or no railage to such markets. If they sold at the coast, the imported article paid no railage at all so the preferential railage rate was ineffective.

(8) 'Distribution' and 'nearest port' rates afforded protection to certain firms merely because they happened to be situated in certain areas, i.e. inland. In many cases the application of these special rates resulted in direct loss to the railway because they did not cover the direct costs of conveyance.

(9) In view of the above, it was imperative to have an independent body of experts who would fix railway rates on a basis which would be both fair and reasonable to all classes of railway users. At present (1927) the rates were being determined "behind closed doors by a handful of railway officials and politicians." Under a system of indiscriminate protection through railway rates the success of any particular kind of enterprise comes to depend to an ever-increasing degree on the favourable or unfavourable decisions with regard to it made by such railway officials and politicians rather than on the inherent strength and suitability of enterprise itself or the initiative and efficiency with which it is conducted; such a system is open to gravest abuses.

(10) Where, for reasons of public policy, Parliament decided to provide for transport of goods or passengers at no cost at a rate below that which would normally be charged for such traffic, the cost should be ascertained and met from the consolidated revenue fund in accordance with Section 131 of the South Africa Act.[39]

It should be noted that by 1949 these criticisms were still largely valid and the Newton Commission, in a cautiously written report, recommended what generally amounted to the revision of the General goods classification, the increase in rates in lower tariff groups and reduction of rates in higher tariff groups, the abolition of special rates and urged that since transportation costs were to be borne in the long run by the community, it should know what they are and how they are met. This, it concluded, would also be a means of telling whether essentially limited resources were

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[39] Ibid., pp. 388-90.

being wasted or not.

These difficulties are prominent in the Union because of the sparseness of the population and its concentration in a relatively small number of well defined but widely separated areas.

It has not been possible to ascertain to what measure the Newton's recommendations were implemented. However, rates are still on the basis of "what the traffic can bear" as parts of the interim report of the Bureau for Economic Research of the University of Stellenbosch suggest.[40] In this report, a few facts are significant:

(1) That railway and road transport were eliminated by restricting commercial vehicles to specific areas and mileage.

(2) That road transport offers economies which would improve efficiency.

(3) That the problem remains a problem of fostering a constructive corporation between road haulage and the railways.[41]

Thus even as late as 1959, the transport problem was still a subject of investigation.

Much as the transport problems could have caused a great deal of discussion it is not as intractable a problem as the very foundation of South African industrial structure--epitomized by the Job Reservation Act, whose operations were aptly described by Mary V. Percy, as an extension of a customary practice. This comes out clearly in the following text:

> The allocation of work according to the face of the worker is by no means an innovation in the Union. But it is almost an innovation to legislate and to delegate general powers of

[40] J.C. Laight, "Road transport of goods in South Africa," South African Journal of Economics, XXVII (June, 1959), 2, p. 137.

[41] Ibid., pp. 139-140.

> determination and control of such work, allocation or reservation to any one body or person of State. In the Union it has up to now, with one or two notable exceptions, been a matter of custom, implemented by various means more or less according to the requirements of varying circumstances and change.[42]

The exceptions to this concern certain Government undertakings and, principally mining, where conflicting claims to work showed up in the early period of development. Here certain work became subject to the provisions of the Mines and Works Act (1911) and was thus effectively reserved by Statutes for whites.[43]

The same author explains the immediate causes of a demand for 'protection against racial competition' in the following manner:

> In the first place, there is a process of the 'dilution' of artisan work and semi-skilled work, one of the results of technological development and improvement. This entails the passing of the old type craftsman work and the original economic justification for craftsman work and the rates of pay, the evolution of many more jobs at 'operative' level and the tendency for rates for these to be set so that non-whites are found in this 'diluted' work. A similar movement, though not connected with the dilution of skilled work, is the tendency mentioned previously for rates to be fixed so that non-whites are employed in work which has always been unskilled or semi-skilled, but which was until recently occupied by whites in accordance with the "civilized wage" policy. The relaxation during the war of the trade union hold on these jobs and the adaptation of the economy to the needs of war and post-war developments were largely responsible for a quickening of both processes. The second principal cause is the introduction with the new Industrial Conciliation Act of 1956 of legislation designed to bring apartheid in trade unions which will change the relative positions of different races in negotiations with employers over wage rates by allowing employers to negotiate separately with whites and coloureds. Here we are not so much directly concerned with African trade unionism as it still has no official recognition nor any part in recognised negotiations, despite the recommendation of the Commission of Enquiry into Industrial Legislation, and as far as bargaining is concerned is generally ineffective.[44]

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[42] V. Mary Piercy, "Statutory Work Reservation," South African Journal of Economics, XXVIII (June, 1960), 2, p. 120.

[43] Ibid., p. 120.

[44] Ibid., p. 129.

It is to be realized, however, that the increasing tendency toward more use of 'operative' labour poses the problem not so much in terms of racial competition as much as it is in terms of racial complementary. It is further emphasized by the author that "South Africa is not so rich that it can afford to make proper use of the greater part of its human resources."[45]

Index figures, and comparative figures (index) at that, cannot be used for exact measurement, but the broad indications given by the Indices of Productivity per labour unit presented in the Standard Bank Review show that there is still considerable scope for productivity advance in South African Industry:

TABLE 8

INDICES OF LABOR PRODUCTIVITY IN SELECTED YEARS

Year	Union of South Africa	U.K.	U.S.A.	West Germany	Japan
1952	98	95	96	94	80
1953	100	100	100	100	100
1954	103	104	102	105	107
1955	99	108	107	113	113
1956	98	108	108	115	119
1957	99	111	112	122	128
1958	99	113	115	126	121

Source: *Standard Bank Review* (S.Africa), 1959, p. 6.

The Commission of Enquiry into Industrial Legislation reporting in 1956, appreciated the importance of the proper deployment of the view

[45] *Ibid.*

that "The suggestions made for the protection of workers of each race fail because they do not ensure the optimum use of labour resources . . . . It appears that the Union is not employing its available resources to the best advantage . . . ."[46] The Commission went on to quote from the Board of Trade and Industries:[47]

> The optimum use of labour resources is a question not merely of formal classification of labour categories, but is one much more of the wage rates at which each category is allowed to work. The extension of manufacturing industry of the Union can be stimulated especially by a reduction of the high cost structure through increased and improved mechanisation so as to derive the full benefit of the large resources of comparatively lower paid non-European labour. As skilled and unskilled labour are cooperative rather than competitive factors, an extension in the use of Native labour would, in the opinion of the Board, if the National economy as a whole is considered, lead to an increase rather than a decrease in the demand for European labour . . . .

There has been in fact a marked shortage of skilled white labour of the type required. The problem seems to be that of improving the competitive position of the economy generally. This is essential for expansion. Without expansion it becomes clear that racial competition without safeguards is likely to create the kinds of problems which are anticipated in the legislation for the reservation of work in favour of a particular race.

Obstacles to expansion become clearer in the light of investigations carried out by the Board of Trade.[48] These investigations led the board to report that "South African industries have . . . been slow to

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[46]Union of South Africa, Report of the Commission of Enquiry into Industrial Legislation (Pretoria: Government Printer, 1951), no. 62, para. 1150.

[47]Board of Trade & Industries, Report of Investigations into Manufacturing Industries in the Union of South Africa (Pretoria: Government Printer, 1945), No. 282.

[48]Ibid., para. 414.

make the fullest possible use of operative labour which as a percentage of the total labour force is probably lower in the Union than in any other industrial country." The 1959 Industrial Tribunal Report[49] after a similar investigation into the furniture industry reported as follows:

> The problem . . . is that dilution of artisans work goes hand in hand with the lowering of the wage structure. Should the work be transformed to operative work as a result of mechanisation and the Europeans still have the assurance that as operative workers they would receive adequate wages and would not be in danger of being replaced by unskilled labourers, many of the complaints over the uncertainties of their existence would probably fall away . . . "

These statements speak for themselves especially when we consider that there are coloured and Asiatics. The problem is not lessened by the fact that even the Tomlinson Commission[50] estimated that in the year 2000 A.D., assuming that the Bantustan scheme would be developing on the lines outlined in their report, there would still be 6,000,000 Bantu within the White sector.[51] How many more are there likely to be in the absence of this development? It would seem that South Africa will face this problem for many years to come unless the idea of racial separation is abandonned and the economic problems faced with the realism they require.

In the next chapter we shall proceed to observe the International trade aspects of the economy keeping in mind the inherent weaknesses of the economy discussed above.

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[49]Union of South Africa, Industrial Tribunal Report (Pretoria: Government Printer, 1959), 8, p. 21.

[50]Tomlinson Commission was set up by the Government to investigate prospects of developing the reserves into viable economic units as homelands of the entire Bantu population. Among the recommendations was a total expenditure for the first ten years of £104,486 million, a sum more than forty-one times the Net National Income of 1962/63.

[51]D.H. Houghton, "Summary of the findings and recommendations of the Tomlinson Commission, " The Tomlinson Report (Johannesburg: The South African Institute of Race Relations, 1956), p. 22.

CHAPTER IV

SOUTH AFRICA'S TRADE PATTERNS SINCE 1925

Thus far we have examined the growth of the South African economy and highlighted this growth as it reflects itself in particular industries. We have also underscored some of the problems which have been obstacles to this growth. Although government activity has played a major role in shaping the economy, the importance of the international commodity trade (especially gold) for South Africa's development cannot be overestimated.

As a general observation, protective tariffs are closely associated with the growth of trade in developing countries. They tend to be used to encourage growth. This should be clearly distinguished from national self-sufficiency closely associated with Mercantilism. The underlying assumption is usually the 'infant industry' type argument for protection. Added to this is the minimizing of luxury-item-consumption, which drains foreign exchange reserves, and maintenance of full employment which is an accepted datum in the already developed countries.

In the South African case, the only relevant assumptions are:

(a) Protection as an instrument for encouraging internal industries;

(b) Protection as an instrument of rationing scarce foreign exchange reserve;

(c) Protection as a means of providing employment only for a section of the population.

It is in the light of the last reason that migrant labour became an institution, as permanent absorption of natives into the economy cannot be anticipated. Hence natives in reserves, who were invariably underemployed, could not be a significant problem, nor a nuisance whenever they were not needed by the industry.

It seems clear that a policy of protection based on these assumptions would result in the growth of internal industries whose development process invariably absorbs foreign exchange reserves in the form of capital goods imported from abroad. This will become increasingly clear as we proceed.

The efficacy of protectionist policy can be judged by its success. This should range from improvement in productivity with the accompanying competitiveness in the international markets. This improvement should justify removal of tariff. The cost of protection can be expressed in terms of resources used which have alternative costs. It is on this understanding of costs incurred that an industry receiving protection should justify the protection it receives. In South Africa, short of an overall investigation of costs incurred over the period of protection, the success of protection policy cannot be adequately determined.

It is, however, impossible from the performance of the economy in the 1950's, when import relaxations took place, to assess the degree of success achieved by protection. This aspect will be dealt with in the next chapter. The present chapter attempts to illustrate from the South African experience, that protection meant a shift of demand from consumer to investment goods, that foreign exchange earning assets became of strategic importance, and that instead of foreign trade decreasing, it increased causing a strain on foreign exchange reserves.

Tariffs are thus not a process of creating walls against trade; their greatest disadvantage lies in creating sub-optimal units which produce so inefficiently that they cannot stand any relaxation of the prohibitive tariff structure. Considering the amount of trade which takes place between the already developed countries, we may infer, perhaps prematurely, that with the spread of technological progress, there will come into being an expanded choice in goods and services and consequently an increase in welfare.

Before examining the trade patterns during the period prior to 1950, we shall briefly outline the tariff policy of South Africa which brought about this pattern.

The deliberate policy of industrial development was laid in 1925 by the Hertzog-Pact Government. This was based on a report by the Board of Trade and Industries.[1]

Towards the end of 1924, the Board was asked by the then Minister of Finance, Honourable N.J. Havenga, to recast and revise the existing Union's customs tariffs for consideration during the 1925 session of Parliament.

In general, the policy followed by the Board in recasting the tariff structure was based on the following considerations:[2]

(a) The dependence of the government on the customs tariff as its principal source of revenue;

(b) The protection of industries which had already been established and had been found to be capable of a further expansion with

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[1]Union of South Africa, Board of Trade and Industry (Pretoria: Government Printer, 1925), No. 51.

[2]Norval, *op. cit.*, p. 113.

increased tariff assistance, and the encouragement of new industries which were likely to be established with a moderate measure of tariff assistance;

(c) The free admission on importation of those raw or semi-manufactured or even manufactured materials, not produced within the Union which did not involve the surrender of considerable revenue.

(d) The due consideration of the interests of primary industries, farming and mining, whose costs of production had to be protected against an undue rise in the cost of living, as a result of which protection to manufacturing industries had to be administered with caution, moderation and discrimination;

(e) The creation of a wider field of employment for civilized labour, tariff assistance being partly conditional on good labour conditions and on the understanding that, wherever possible, a larger proportion of civilized labour would be employed; and

(f) The use of the tariff as an instrument for negotiating not only with Great Britain and the British Dominions and colonies, but also with countries outside the British Empire.

The two main principles embodied in the customs tariff up to the outbreak of World War II were that it should be a device for yielding a substantial revenue, and that it should be utilized for encouraging the development of local industries in a substantial manner by means of:[3]

(a) reasonable protection for existing industries which showed prospects of successful development on economic lines and which would provide employment for the country's growing population;

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[3] Ibid., p. 114.

(b) suspended duties for the purpose of encouraging the establishment of new or the expansion of existing industries prior to the imposition of such duties;

(c) admission free or at low duties of requisites and raw materials not produced in the country for all industries, both primary and secondary; and

(d) the protection of local industries against dumping.

Norval contends that "from 1925 up to the outbreak of the Second World War, the Government policy of encouraging the employment of civilised labour became a cardinal feature of the country's economic policy."[4] As a result, the poor white problem was wiped out in a comparatively short period. The Government's policy of maintaining 'healthy' labour conditions in industry was furthermore carried into effect by withholding, through a provision in the Customs Tariff and Excise Duties Act, the privilege of importing (under rebate duty) raw materials and requisites from those manufacturers who maintained unsatisfactory labour conditions. Thus, it can be said that since 1925, the customs tariff was framed and applied in a manner that avoided any possible hindrance to the supply of primary industries' special requirements.

As far as secondary industries were concerned, the general policy was not to increase the duties on capital goods, such as machinery and plant or on raw materials and requisites, when not produced locally. Relevant duties were either reduced or the necessary materials and requisites admitted under rebate of duty. As a result, importation of these goods

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[4]Ibid. It should be observed, however, that to ensure that this policy was carried out, legislation covering wage fixation, terms and conditions of labour was passed.

increased substantially. The assistance rendered to all classes of industry in this way, through the South African customs tariff, contributed greatly to the development of local industries.

The granting of rebates, along with keeping duties on capital goods low, precluded the necessity for extending high protective duties, especially when we bear in mind that the moderate level of protective tariffs, particularly during the period 1925 to 1939, was assisted by the practice of imposing dumping duties. Such duties were indiscriminately applied to an extent that would not be possible today, under the provisions of the General Agreement on Tariffs and Trade. At the outbreak of the World War II, there was a large range of commodities, imported from different countries, which were subject to dumping duties of one kind or another. This was, however, rectified during the war. It is generally believed that there is no country where dumping duties are so expeditiously and effectively applied as in South Africa.

Although the customs tariff contributed to the development and expansion of industries, in respect of which a nucleus existed in 1925, during 1925 to 1939, it failed to stimulate others. Among these were capital intensive industries. The reason for this lies in the then policy of the Board of Trade and Industries which extended suspended duties only after the factory was erected. Not many prospective manufacturers were willing to take the risk of establishing an industry which may not be able to stand competition during the period of establishment.

Early in the war the Government adopted the policy of giving an assurance in advance that customs tariff protection under clearly defined conditions would be granted to specific essential industries.

Among these conditions were:[5]

(a) That the industry is actually in operation and is technically in a position to satisfy the country's requirements of a particular commodity up to at least 50%;

(b) The commodity should measure up to its price;

(c) That the Board should satisfy itself that all other requirements including the prospects of the industry are satisfactory.

After the war, the Government empowered the Minister:

> with the right to impose on recommendation of the Board of Trade and Industries, temporary special duties on goods which were of a class or kind produced in South Africa, if he was satisfied that such goods had been or were being or were likely to be exported to South Africa at an export price and in quantities which could seriously prejudice the production or manufacture of goods of that class or kind in South Africa.[6]

The temporary special duty together with any other duties payable, excepting dumping duties and certain other discriminatory duties, could not exceed fifty per cent of the current domestic value in the country of export.[7]

In order to combat disruptive competition from low wage countries, which were not entitled to the most-favoured-nation treatment, special provision was made in the Customs Act in 1950 to empower the

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[5] Ibid., p. 116. Specific essential industries comprised agricultural implements, electric motors, spinning and weaving, pulp and paper and certain chemicals. This policy found more general application after the war and in particular during more recent years. The Board also carries out investigations on incomplete information to aid would-be investors.

[6] Ibid., p. 117.

[7] This limitation was later removed and the provision of such temporary special duties was seldom used. It was regarded as an emergency measure. cf. Ibid.

Minister to impose, on the Board's recommendation, special duties in the maximum column in cases where the duty could be levied, together with other duties. This was not to exceed the extent of 100 per cent of the current domestic value.[8] Finally, in 1955, the Minister was invested with further special powers where he had reason to believe that goods of a class or kind produced in South Africa had been or were being or were likely to be exported to South Africa at a price which in his opinion was below a reasonable price for such goods, to impose a special duty. This was a device calculated to combat end-of-season and close-out sales.

All these respective provisions in the Customs Act (empowering the Minister to impose the three categories of special duties) were subsequently repealed when the Minister was empowered to impose any duty on imports from any country in order to give effect to any recommendations of the Board of Trade and Industries.

It is Norval's contention that "in the Board's experience the average level of tariff protection found to be adequate seldom went beyond 20 per cent, except on imports from countries falling under the maximum column of the tariff in which case it is almost treble that figure."[9]

It would seem that the comparatively low level of duties was a result of rebate duties on inputs, and the effective use of dumping duties. The powers of the Minister and the Board of Trade acted as deterrents against injurious imports. Furthermore, advance commitment to protect industries has had the effect of leading them on, often with

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[8] Ibid.

[9] Ibid., p. 119.

little or no actual protection.

The main instrument of protection used by the South African Government has been custom tariffs applied on an <u>ad valorem</u> basis or on a specific basis (i.e. a levy made on a unit or weight basis). No subventions are paid, nor is there any control of imports by licensing except in the case of a number of agricultural products. Apart from these, the c.i.f. scheme is applicable to iron and steel products and agricultural implements. If commodities falling under these groups are imported at less than average world prices, then a duty equal to the difference is imposed. This scheme has not been in operation since the Second World War, and the agricultural implements are now being protected on an <u>ad valorem</u> basis.

In summary, the following objectives would seem to underlie the protection policy of the South African Government:[10]

(a) the maximum industrial development commensurate with economic resources of the country and with sound business principles;

(b) the desire to attract to South Africa capital and 'know-how' skills from abroad;

(c) the freedom to establish factories within any industrial area within the general framework of the country's laws;

(d) the granting of adequate customs tariff protection on the recommendation of the Board of Trade and Industries;

(e) the preparedness to grant assurances in advance of protection on acceptable industrial propositions submitted to the Board of Trade and Industries;

(f) concessions to import, under rebate duty on recommendation of the Board, essential raw materials not procurable in the country;

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[10] <u>Ibid</u>., p. 124.

(g) the determination to protect all local industries against every form of disruptive competition through the imposition of dumping duties as expeditiously as possible.

It is within this general framework that trade developments can be understood during the period 1925 to 1950. Significant influences were the 1930 depressions, the Second World War and the post-war conditions. For this reason the period can be roughly divided into three:

(a) the period of recovery from the Great Depression up to the slight recession of 1937 and the upswing fostered by the rearmament race of 1938-39;

(b) the war years from 1939 to 1945;

(c) the immediate post-war years up to the imposition of quantitative import controls of 1948.

We shall briefly examine the three periods mentioned above including the period prior to the depression.

According to a report of the Customs Tariff Commission of 1939[11] as cited by G. Marais,[12] the increases in the rate of growth in manufacturing industries could be ascribed to the policy of protection followed by the Government during the period 1925 to 1939. During the period 1930 to 1939, output increased by 38 per cent.[13] Accordingly, the output of private manufacturing industries increased from £33.5 million in 1925/26 to £79.9 million in 1938 to 1939. The increase in the value of raw materials

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[11] G. Marais, "Tariff Protection industrialization and the Balance of Payments 1925-1939," South African Journal of Economics, XXVIII (March, 1960), 1, p. 59.

[12] The Commission was set up to explore the effects of the protection policy on the economy.

[13] Marais, op. cit., p. 59.

imported was accompanied by a decline in the value of imports of certain finished commodities. Table 9 shows these changes.

The development of import-competing industries resulted in a decline in the value of imports of the manufactured foodstuffs, liquor and tobacco as a percentage of the total value of imports of merchandise, from 5.2 per cent in 1928 to 3.5 per cent in 1939, and the value of imports of textile manufacturers, as a percentage of the total value of imports, declined from 15.6 per cent to 12.0 per cent during the same period.

Industrial development resulted also in an increase in the value of imports of capital equipment. The value of imports of industrial machinery rose from £997,479 in 1925 to an average of £3.7 million in the period 1937-39.[14]

TABLE 9

COMPARISON OF IMPORTS OF CERTAIN RAW MATERIALS AND OF FINISHED PRODUCTS MANUFACTURED FROM THOSE MATERIALS

(1925 - 1939)

Commodity	1925 £	1939 £
Leather in piece	260,037	685,173
Footwear	1,029,787	442,889
Rubber manufactured	10,258	735,930
Rubber, fab.	818,739	642,674
Wood unmanufactured	1,595,512	2,377,503
Furniture	101,264	127,637
Paper	958,777	2,192,067
Books, publications	917,709	1,324,015

Source: G. Marais, South African Journal of Economics, XXVIII (March, 1960), 1, p. 59 (Table II).

[14] Ibid., p. 60.

It is Marais' contention that the growth in the manufacturing industry caused a large increase in the total volume of imports, because it resulted in rising incomes. The following seems even to suggest an income elasticity of demand for imports greater than unity:

> The high income elasticity of demand for imports resulted in a considerable rise in the volume index of imports from 100 in 1925 to 200 in 1937, in relation to an increase from 100 to 179 in the index of National Income adjusted for price changes. The growth in real National Income affected the demands for durable consumer goods. Thus the imports of Motor Vehicles increased from £4.2 million in 1925 to £8.5 million in 1937 to 1939 . . . . Because of the decline in value of total merchandise exports from £40 million in 1926 to an average of £33 million in 1937, an increase in merchandise imports from £73.26 million in 1926 to £103.3 million in 1937. It was left to gold exports, which increased from £43 million to £83 million in this period, to maintain equilibrium in the Union's balance of payments.[15]

It will be noticed that the propensity to import has remained relatively high throughout the relevant period. This can be traced to the demands of industrialization.

Before considering salient features of South Africa's trade as appeared in Kelly's study[16] on South Africa's trade between 1933 to 1953, it may be advisable to bear the following in mind:

(a) The free interchange of goods between three Protectorates of Basutoland, Bechuanaland and Swaziland, and the Union of South Africa means that the South African import figures published by the Customs Department include goods imported into the protectorates from outside South Africa and South African export statistics exclude exports to these territories. To the extent that protectorates have commercial intercourse with the Union

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[15] Ibid., pp. 60-61.

[16] T.H. Kelly, "South Africa's Foreign Trade 1933-53," South African Journal of Economics, XXII (March, 1954), 1, pp. 73-90.

and with the rest of the outside world, official statistics of the Union of South Africa's imports and exports are slightly inaccurate.

(b) A further difficulty arises from Customs Department's practice of keeping separate records of imports of Government stores. Details of these were not published during the war years though the annual aggregates were disclosed after the war. For similar reasons of security, no statistics of ships' bunkers of wool shipments were included in the war-time export statistics, though the yearly totals were subsequently made available. These omissions prevent the presentation of a completely accurate picture of the direction of trade during the war.

A problem arises in connection with the handling and treatment of gold. It has always been hard to decide whether to treat exports of gold as merchandise or as payments abroad of international money. A large gold producer like South Africa is not quite in the same position as a country which regards gold only as a banking reserve. Up to 1939, the Customs Department viewed gold bullion exports as merchandise exports. Fortunately it is possible to use a series on sales of gold to parties outside the Union, estimated by the Reserve Bank. These have been used in the outline below, and they include earmarked gold.

A complicating factor emerged since 1949 when the International Monetary Fund gave permission for export of considerable quantities of semi-processed gold and of articles manufactured from gold. Though strictly not monetary gold in the ordinary sense in the circumstances, these exports can scarcely be treated legitimately as normal "merchandise."

Notwithstanding their sale at a premium above the official monetary parity, and the assurances given by the Governor of the South African Reserve Bank that semi-processed gold exports were for non-monetary use only, they are best linked with all other goods and commodities. The values of processed and semi-processed gold used in this study were furnished by the Reserve Bank of South Africa. They refer to sales of gold and therefore differ from actual physical exports, as recorded by the Customs Department.

Table 10 shows the values of merchandise exports[17] (inclusive of ships' stores and re-exports, but exclusive of gold), all exports (inclusive of gold) and Merchandise Imports (including imports of Government Stores and imports of goods subsequently re-exported) from 1929 - 1952.

The series commences with figures for 1929 (which was a peak year) in order to show the effect of the great depression on the value of both imports and exports. The cushioning of gold exports is apparent. Whilst the value of merchandise imports and merchandise exports fell by 60 per cent or more below the 1929 figures, all exports (inclusive of gold) fell by about 30 per cent.

The year 1933 marked the beginning of a recovery which carried imports to a new peak in 1937. But whereas all exports in 1937 greatly exceeded the 1929 figure, exports of products other than gold had reached by that date only about two-thirds of their pre-depression level.

[17] Values of imports are f.o.b. in country of despatch, therefore do not include the cost of transferring the goods to South Africa. Export values are f.o.b.

TABLE 10

SOUTH AFRICA'S TRADE BALANCE INDICATING THE ROLE OF GOLD EXPORTS

(1929 - 1952)

Year	Merchandise Exports (excl. Gold)	All Exports (incl. Gold)	Merchandise Imports	All Exports less Imports
	£ millions	£ millions	£ millions	£ millions
1929	62.0	97.9	83.5	+14.4
1930	46.3	83.4	64.6	+18.8
1931	32.8	71.8	53.0	+18.8
1932	21.4	69.9	32.8	+27.1
1933	25.5	95.4	49.3	+46.1
1934	26.0	82.2	66.3	+15.9
1935	30.9	102.4	75.3	+27.1
1936	32.4	115.2	86.3	+28.9
1937	42.6	125.5	103.4	+22.1
1938	35.3	104.7	95.6	9.1
1939	34.1	125.5	91.3	+34.2
1940	42.6	133.0	105.1	+27.9
1941	49.8	169.7	121.6	+47.1
1942	58.5	113.5	116.3	+ 2.8
1943	52.9	142.9	106.9	+36.0
1944	77.1	155.3	102.7	+52.6
1945	77.5	157.1	112.4	+44.7
1946	97.6	193.1	215.1	-22.0
1947	104.7	246.0	300.4	-54.4
1948	136.7	298.8	353.5	-54.7
1949	146.8	346.9	315.2	-31.7
1950	218.2	340.1	306.9	+33.2
1951	281.7	434.0	470.1	-36.1
1952	267.7	426.6	420.1	+ 6.5

Source: Union's Customs and Excise Department as arranged by T.H. Kelly, "South African Foreign Trade 1933-53," South African Journal of Economics, XXII (March, 1954), 1, p. 75.

The war years gave considerable impetus to merchandise exports, but after 1941 imports fell owing largely to shipping difficulties. In the immediate post-war years the rush to satisfy the pent-up demands for foreign goods, reinforced by rising prices sent imports soaring to £353 million in 1948. At that juncture, exchange rationing and quantitative controls were applied to protect gold and exchange reserves. The Korean War emergency reinforced the trend of rising prices. This, together with some relaxations of import controls all combined to push imports to the record figure of £470 million in 1951. Imposition of import control was partly responsible for cutting the amount of imports to £420 million in the following year.

Merchandise exports in 1952 were about eleven times their value in 1933 and about eight times their value in 1938. South Africa's merchandise exports have for many years fallen short of the country's merchandise imports. This gap was widening from 1933 to 1941, but had narrowed again by the end of the war. The deficit occasioned no serious problem as long as gold exports more than covered it to permit the financing of merchandise imports and to leave a surplus to meet current invisible imports, and dividends, interest and capital redemption payments. Except in 1942, such a surplus was available every year until the end of the war.[18]

The situation underwent an appreciable change after 1945. Whereas merchandise exports and gold exports expanded respectively, merchandise imports outstripped their combined total. The familiar surplus appeared only in 1950, when imports had been severely restricted by import controls, and again slightly in 1952. In the first few years after the war this unwelcome deficit was more than made good by capital imports, but when capital imports tailed off the strain became really acute. The period covered above closed, with exports of merchandise and gold combined only

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[18]The slight deficit in 1942 was most likely caused by postponed shipments of gold owing to shipping difficulties. Gold was actually accumulating in South Africa in later years of the war.

just about balancing merchandise imports, leaving little or nothing for meeting commitments on capital account and the cost of other invisibles.

The changing position of gold can be shown in another way, however, as Table 11 indicates. Here gold is expressed as a percentage of all exports. Before the war that percentage was roughly 70 per cent. In the later war years, this had fallen to around 50 per cent. It increased to nearly 60 per cent by 1949, but in the early part of the fifties, it began a downward trend reaching 35 per cent in 1951.

TABLE 11

CHANGING POSITION OF GOLD

Year	Percentage	Year	Percentage
1929	37	1941	79
1930	44	1942	48
1931	54	1943	63
1932	69	1944	50
1933	73	1945	51
1934	68	1946	49
1935	70	1947	57
1936	72	1948	54
1937	66	1949	58
1938	70	1950	36
1939	73	1951	35
1940	68	1952	37

Source: T.H. Kelly, South African Journal of Economics, XXII (March, 1954), p. 82.

The above is not surprising when we compare it with Table 12 showing the percentage composition of merchandise exports excluding gold.

TABLE 12

PERCENTAGE COMPOSTION OF MERCHANDISE EXPORTS

(excluding Gold)

Year	Animals & Animal Products	Products of Land	Products of Mines	Other Articles
1930	38.7	26.1	28.9	6.3
1931	37.3	25.4	29.1	8.2
1932	44.2	29.9	20.1	5.8
1933	49.0	25.1	18.7	7.2
1934	42.8	27.9	22.3	7.0
1935	43.7	29.2	21.1	6.0
1936	46.5	22.7	23.2	7.6
1937	41.9	31.7	18.0	7.4
1938	39.1	30.4	21.9	8.6
1939	34.3	36.3	20.0	9.4
1940-44 (average)	24.6	22.8	25.2	27.4
1945	20.2	19.5	27.7	32.6
1946	40.4	14.3	26.2	19.1
1947	33.5	19.6	26.2	20.7
1948	34.8	25.5	20.7	19.0
1949	33.7	18.9	28.6	18.8
1950	34.5	12.9	37.1	15.5

Source: Bureau of Census and Statistics as adapted by T.H. Kelly, South African Journal of Economics, XXII (March, 1954), p. 84.

This table shows clearly the increase (from 1940 to 1950) in the proportion of other (i.e. manufactured) articles during the war years. There was in addition large-scale storage of wool in the Union. Although the resumption of wool exports on the customary scale after the war meant that manufacturers were unable to account for as high a proportion of exports as during the war years, they have, nevertheless, made a considerable advance over their pre-war status. It is the writer's contention that the rise in percentage export of the manufacturing sector was bought at the cost of serious balance of payments which characterised the end of the period discussed above. This point will be developed further in the next chapter.

The United Kingdom has always been a principal source of imports for South Africa, though towards the end of the period, namely 1948-49, there was an appreciable decline in South Africa's trading relations with this country. The fact is illustrated by Table 13 below.

TABLE 13

PERCENTAGE OF MERCHANDISE IMPORTS BY COUNTRY OF ORIGIN

Year	U.K.	Rest of Commonwealth	U.S.A.	Other Countries
1933	50.3	9.9	12.2	27.6
1934	48.7	10.3	16.3	24.7
1935	48.6	9.7	16.9	24.8
1936	46.3	9.4	18.7	25.6
1937	42.6	9.4	19.5	28.5
1938	43.2	10.1	17.4	29.3
1939	41.6	12.3	19.1	27.0
1940*	35.9	19.9	24.4	19.8
1941*	29.5	20.1	38.0	12.4
1942*	38.0	25.1	19.8	17.1
1943*	24.2	24.6	15.6	35.6
1944*	23.0	24.2	17.6	35.2
1945	33.2	21.9	27.7	17.2
1946	34.4	16.9	26.4	22.3
1947	31.2	13.0	35.0	20.8
1948	33.4	13.3	34.7	18.6
1949	41.7	15.9	25.8	16.6
1950	41.2	15.8	16.0	27.0
1951	35.4	15.8	19.4	29.4
1952	34.9	16.3	20.8	28.0

Source: T.H. Kelly, South African Journal of Economics, XXII (March, 1954), 1, p. 85.

* Excluding Government Stores and Specie.

The other members of the British Commonwealth, taken together, have improved their relative position. In the period of recovery from the Great Depression, about 10 per cent came from these and other British dependencies. During the war, South Africa became much more dependent on them as sources of supply, obtaining then (apart from Government Stores) as much as a quarter, by value, from them. The proportion fell in the period of heavy buying from the United States of America just after the war and by 1950 it was about 16 per cent. Nevertheless, the other parts of the Commonwealth have not compensated for the fall in the United Kingdom's share. Whereas in 1933 the proportion of the value of imports procured from all the British Commonwealth countries was as high as 60 per cent, it was by 1948 only 46.7 per cent and has barely exceeded 50 per cent since.

From Table 12 it would appear that the United States has, next to the United Kingdom, been the largest individual supplier of South Africa's needs. The share of the United States was on an upward trend from 1933 to the outbreak of the war, increasing from 12 per cent to 19 per cent. The first two years of the war saw the proportion double itself (i.e. in 1940 it was 24.4, increasing to 38 per cent in 1941). Later in the war, presumably as South Africa turned to other sources of supply, the U.S. proportion receded to a percentage comparable to pre-war years only to rise again between 1944 to 1947 from 27 per cent to 35 per cent as shown on Table 13.

The proportion flowing from all other sources has remained constant around 28 per cent for the period covered except for 1943 and 1944 when it increased to 35 per cent. This, Kelly ascribes to heavy diversion of purchases from South American countries, especially Argentina and Brazil.[19]

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[19] T.H. Kelly, op. cit., p. 86.

With respect to exports a similar pattern emerges. Table 14 shows the relative importance of Britain and other Commonwealth countries, the U.S. and other countries in relation to South Africa's merchandise export trade. Table 14 is distorted for the years 1940-1944 by the omission of values of wool exports, details of destination which were not published by the Customs Department. The following points are nonetheless significant. Whereas before the war the United Kingdom took about 40 per cent of South Africa's exports, the proportion since the war has been little more than a quarter. Other parts of the Commonwealth taken together increased their share from an average of about 15 per cent to about 25 per cent, the proportion has remained steady at about 20 per cent and compared with 50 to 60 per cent before the war. The increasing importance of parts of the Commonwealth other than Britain is partly explained by the then growing trade with other British countries in Africa, especially Southern Rhodesia.

These are the countries which constitute the main market for exports of South Africa's manufactures. The U.S. pre-war percentage was less than 3. During the war, however, this percentage increased substantially to about 19 per cent as shown in Table 14. This was to be expected, as large European countries were cut off from supplies. As soon as they were able to demand South African produce after 1947, American percentage declined, but it was still about twice as much as before the war in 1948, 1949 and 1950. Exports to other non-British countries, at about 45 per cent of the total, were still higher in relative magnitude than they were before the war. Apart from 1941, when the United States was the principal buyer and supplier of South Africa, the United Kingdom has always been the leading market. The relative positions of other countries have, during the period 1925 to 1950, not followed a stable pattern. The opening of the year 1950 was, thus, a period of a growing manufacturing sector causing pressures on the foreign exchange reserves. This will be our next consideration.

TABLE 14

PERCENTAGE COMPOSITION OF EXPORTS BY COUNTRIES OF DESTINATION

(1932 - 1952)*

Year	U.K.	Rest of Commonwealth	U.S.A.	Other Countries
1932	42.6	15.7	1.8	39.9
1933	38.0	14.5	3.2	44.3
1934	41.2	14.9	2.5	41.4
1935	42.6	13.0	2.3	42.1
1936	41.0	12.0	3.8	43.2
1937	39.5	13.1	3.5	43.9
1938	39.6	15.0	2.7	42.7
1939	40.9	17.5	8.5	33.1
1940**	52.2	27.4	11.2	9.2
1941**	32.2	37.6	19.3	9.9
1942**	27.5	37.9	17.4	17.2
1943**	24.4	41.1	10.9	23.6
1944**	23.6	37.7	5.5	33.2
1945	24.6	36.1	14.6	24.7
1946	20.3	21.4	19.9	38.4
1947	30.7	26.9	11.8	30.6
1948	28.3	25.3	7.4	39.0
1949	25.9	24.3	7.7	42.1
1950	26.5	20.0	8,8	44.7
1951	24.4	20.3	10.8	44.5
1952	27.2	20.9	6.8	45.1

Source: T.H. Kelly, South African Journal of Economics, XXII (March, 1954), 1, p. 88.

* Re-export
** Excluding exports of wool.

CHAPTER V

SOUTH AFRICAN TRADE DEVELOPMENTS IN THE 1950's

Given the trends as indicated in the previous chapter, the experience of the South African economy in the 50's merely emphasized South Africa's growing appetite for imports. Gold continued to play a significant role in financing growth during this period as Table 15 shows.

TABLE 15

SOUTH AFRICAN BALANCE OF TRADE

(excluding gold bullion)

Year	In favour of S. Africa	Against S. Africa
1951	---	£123,567,619
1952	---	£ 31,165,889
1953	---	£ 85,746,444
1954	---	£121,854,941
1955	---	£112,007,851

Source: Union of South Africa, Foreign Trade Statistics (Annual Estimates Department of Customs and Excise) (Pretoria: Government Printer, 1951-1955).

By way of illustration Table 15 shows, in value terms, the trade deficit that South Africa had to finance with gold exports. An examination of later years as shown in the Appendix clearly indicates that excluding gold bullion, trade balance was against South Africa by an average of not less than £100 million per annum throughout the decade. In 1958, as a result of the relaxation of import controls, the disparity became large enough to cause concern. The relaxations in import control were instituted in 1951 with the hope that the South African economy would, by then, be able to withstand foreign competition, after having enjoyed a relatively protected market for twenty-five years. This was not to be the case as will become increasingly clear as we proceed. This decade is significant to the degree that it provides a period during which the protective policy of the government could be put to a test.

For the sake of simplification, the South African foreign sector may be examined within the framework of the Department of Customs and Excise. This department divided both exports and imports into thirteen classes. Since facility will be achieved by referring to the commodities involved by class, these will be set up in the manner they appear in most of the trade statistics of the country.[1]

Class I (a), (b) and (c) consists of agricultural and pastoral products.

Class I (d) consists of foodstuffs.

Class II : Ales, spirits, wines and beverages.

Class III : Tobacco.

Class IV : Consists of fibres, yarns, textiles and apparel-vessels.

Class V : Consists of metals, metal manufactures, machinery and vehicles.

Class VI : Minerals, earthenware and glassware.

Class VII : Oils, waxes, resin, paints and vehicles.

Class VIII: Drugs, chemicals and fertilizers.

Class IX : Leather and rubber manufactures.

Class X : Wood, cane wicker and manufactures thereof.

Class XI : Books, paper and stationery.

Class XII : Jewellery, time-pieces and musical instruments.

Class XIII: Miscellaneous.

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[1]The Appendix shows totals of all these classes and specifically excludes gold bullion.

Concerning Class I (a), (b) and (c), South Africa was a net exporter of these products with a considerable margin of roughly £70 million in excess of imports per annum. Class I (d) had a similar position placing the whole class into a category of a powerful source of foreign reserve.

Class II began the decade as a net exporter. With the exception of 1957 when this excess of exports over imports was as low as £900,264, it has maintained this position throughout the decade.

Class III began the decade as a net importer with the exception of 1952, when exports exceeded imports by £8,760. This excess of exports continued into the following year. It amounted to £660,422 in 1953. The reversal of this trend took place in 1954 when the class had an export surplus of only £193,377 to be followed in 1955 by an import surplus of £1,566,727. Thus between 1955 up to 1960 South Africa was a net importer of tobacco.

Class IV emerged as a considerable consumer of foreign exchange. This consumption ranged from £60 million in 1950 to £126 million in 1951 both extreme years. This disparity persisted throughout the decade. The average net consumption of foreign exchange per annum was roughly about £91 million.

Class V, like Class IV, was an overall consumer of foreign exchange. An annual surplus of imports over exports was £117.7 million for the whole decade. In 1957 and 1958 the excess reached a peak of £124 million and £164 million respectively.

Class VI was an overall net exporter, with an annual earning power of approximately £6.7 millions in foreign exchange. This earning power improved in the latter half of the decade, when it reached an annual average of £19.4 millions. It was these five years that raised the decade's average to the £16.7 million mark.

Class VII, on the other hand, was a net importer with an annual deficit of £41.7 million over the 10 years. This deficit seems to have remained stable during the years 1950 to 1960.

Class VIII was another net importer. It began the decade with an import surplus of about £5 million in 1950. This doubled in 1951 and declined to £9 million in 1953, only to rise the following year to £12 million. This rise continued to the end of the decade, giving an average annual trade deficit of £15.3 million over the ten years.

Class IX, X and XI emerged as net importers with annual averages of £5-7 million, £11.7 million and £16.7 million respectively.

Class XII was a net exporter with an annual average of £17.3 million. The years 1951, 1952 and 1953 experienced an export surplus of £26 million, £170 million and £56 million respectively. This tapered off towards the close of the century. Information concerning this peculiar behaviour is, however, not available.

Class XIII was another net importer with an annual average of £9.4 million over the years 1951 to 1960.

Thus Class I with an average contribution of £132.9 million per annum to foreign exchange, stands second only to gold as a subsidiser of the South African economy. Out of the thirteen classes considered above, only four were net exporters. It should be clear that these four classes with the exception of Class XII (consisting of jewellery, time-pieces and musical instruments) were primary products and/or simple processed materials like preserved foods, wool, sugar, etc. The picture which thus emerges is that of South Africa as being predominantly a producer of primary products.

For the entire period, gold helped to subsidize the trade deficit incurred by the process of development. Considering the fact that South Africa is not an agricultural country (with only 15 per cent of arable land, poor rainfall and other accompanying weaknesses already discussed in the earlier part of this study) it becomes clear that this sector of the economy deserves much more attention than it has hitherto received. Gold remains a wasting asset. This fact, therefore, should underlie the importance of improving general productivity in the manufacturing sector of the economy.

Before considering the review statements issued by the Governor of the South African Reserve Bank for the light which they may cast on developments within the fifties, it is necessary to indicate the importance of foreign investment for the continuing growth of the South African economy, and the direction of trade.

In general, an examination of the rôle of foreign investment is important. Foreign investment is often a cause of much misunderstanding in various countries. Some underdeveloped countries regard foreign investment as an instrument of foreign control of their economy. Some countries regard it purely as a supplement to domestic savings.[2] In South Africa, a similar misunderstanding was expressed by some leading officials.[3] The depth and breadth of this misunderstanding derived its support from

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[2]This fact becomes even more pertinent when some highly placed officials, who should know, claim that South Africa can enjoy a high rate of growth without foreign investment--cf. Digest of South African Affairs (Pretoria), Dec. 18, 1961, p. 4 and South African Scope (New York), August - September, 1960, p. 6.

[3]i.e. Chairman of Industrial Development Corporation of South Africa declared that "Development should, if necessary, be financed from the Union's own resources . . . ." cf. South African Scope (New York), August - September, 1960, p. 6.

statistics of financing of investment in South Africa, as shown in Table 16.

TABLE 16

SOUTH AFRICA: FINANCING OF INVESTMENT, SELECTED YEARS*

(millions of rand;[a] per cent of Total)

ITEM	1953 Value	1953 Per cent	1955 Value	1955 Per cent	1957 Value	1957 Per cent
Personal Savings	242	28	396	39	368	35
Corporate Savings	140	16	72	7	134	13
Current Surplus of Public Authorities	110	12	126	12	136	13
Depreciation Allowance	222	25	334	33	392	37
Gross Domestic Savings	714	81	928	91	1030	98
Net Foreign Borrowings	162	19	90	9	26	2
Gross Capital Formation	876	100	1018	100	1056	100

*Source: United Nations, Department of Economic and Social Affairs, Economic Survey of South Africa Since 1950 (New York, 1959), p. 215.

[a]Rand - £0.5 sterling.

Table 16 shows that during the selected years 1953, 1955 and 1957, South Africa experienced a relatively high rate of internal savings. Such a situation can lead to a general feeling that an economy can grow without undue reliance on foreign investment. S.S. Brand's[4] study of the

[4]S.S. Brand, "Economic growth and the external balance in South Africa," South African Journal of Economics, XXX (December, 1962), 4, p. 301.

South African economy reveals that in the case of South Africa, such a feeling was not justified. Brand contends that levels of investment such as those shown in Table 16 are export measurements and, therefore, do not necessarily indicate ex-ante requirements of capital, foreign or domestic, for financing a desirable growth rate. The conclusion from these data, that South Africa can finance a definite growth rate without a net capital inflow from abroad, reveals an incomplete appreciation of the role of foreign capital in a developing economy.[5]

The balance of payments problems of developing economies "result from a specific input-output unbalances and disproportionalities that arise in the course of growth rather than from the usually assumed grand imbalance between the investment required for attaining a certain growth rate and domestic savings."[6] From this viewpoint, in addition to supplementing or perhaps substituting for domestic savings, foreign capital inflows have also another function. This is the financing of imported capital goods, processed intermediate goods and raw materials essential in the development of the growing sectors of the economy.

The above argument is further re-enforced by Brand's contention expressed in the following:

> The more simple view of foreign capital as a mere supplement to domestic saving contains the implicit assumption that there is free substitutability between domestically produced capital goods, intermediate goods, raw materials and consumer goods, and those imported from abroad. In other words, it implicitly assumes that, say an increase in domestic investment can be realized either by increasing domestic production of capital goods, or by increasing imports of similar capital goods from abroad, the choice being made on the basis of cost or quality differentials, and perhaps the availability of foreign exchange.

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[5] Ibid.

[6] Albert O. Hirschman, The Strategy of Economic Development (New Haven: Yale University Press, 1961), p. 169.

> This choice is, however, not open to an industrially less advanced economy, or one in which what industrialization there has been, has been concentrated in final consumer goods industries rather than in basic industries with strong forward linkage. In such an economy, an increment of investment can be realized only by increase in imports of capital goods, or at best by increases of both imports and domestic production of capital goods in fairly fixed proportions. It is thus easily conceivable that a shortage of foreign exchange to finance these additional imports may inhibit capital formation even at a high rate of domestic savings.[7]

It follows, therefore, that in a developing country, the level of investment may be limited by the ability to import capital goods, rather than by the rate of savings. This, however, should not distract from the importance of domestic savings, no matter where it is derived. The additional import capacity provided by an increase in foreign exchange availability can only be translated into capital formation if accompanied by the act of domestic saving. This point was made by Ragnar Nurkse in his discussion of financing of capital formation in underdeveloped countries, though perhaps without an equal emphasis on the function of foreign exchange.[8]

To explain South Africa's increasing dependence on foreign trade, we may employ Brand's approach. He examines the structure of the South African economy in relation to the balance of payments. This is shown in Table 17 below. The value of metal products, machinery and transport equipment produced in South Africa is shown in relation to the total net output of manufacturing; presumably to give a rough indication of the relative growth of "hardware" industries in the country.

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[7] Brand, op. cit., p. 302.

[8] Ragnar Nurkse, Problems of Capital Formation in Underdeveloped Countries (London: Oxford University Press, 1955), p. 88.

TABLE 17

SOUTH AFRICA: COMPOSITION OF NET OUTPUT OF MANUFACTURING IN SELECTED YEARS*

(Per cent of the Total)

Year	Metal Products: Machinery and Transport Equipment	All Other Manufactures	Total Manufactures
1924-25	17.7	82.3	100.0
1934-35	23.5	76.5	100.0
1944-45	27.6	72.4	100.0
1954-55	35.7	64.3	100.0

*Source: Union of South Africa, Bureau of Census and Statistics (Pretoria), Jubilee Issue, 1910-60.

Brand contends that, despite substantial advances suggested in Table 17, South Africa has remained dependent on foreign supplies of these goods. This he illustrates by Table 18 below. Here, it is shown that a similar category of goods have increased their proportion of South African imports since 1925.

TABLE 18

SOUTH AFRICA: COMPOSITION OF IMPORTS IN SELECTED YEARS*

(Thousand of Rand; Per cent of Total)

Y e a r	Metals, Metal Manufactures, Machinery and Vehicles(a)		All Other Imports		Total Imports	
	Value	Per cent	Value	Per cent	Value	Per cent
1925	34146	25	100642	74.7	134788	100.0
1935	51142	34.4	97494	65.6	148636	100.0
1945	55846	25.4	164072	74.6	219918	100.0
1955(b)	304620	31.7	657360	68.3	961980	100.0
1958(b)	399794	36.0	711134	64.0	110928	100.0

(a) Excluding motor vehicles and parts.
(b) Including South West Africa. This change in coverage does not significantly affect the present use of data.

*Source: S.S. Brand, "Economic Growth and External Balance in South Africa," South African Journal of Economics, XXX (Dec. 1962), 4, p. 303.

The data in Tables 17 and 18 suggest that the structure of the South African economy is such as to require heavy reliance on imports of capital goods to provide the real component of domestic investment. A table compiled by D.G. Franzsen, showing the composition of South African imports, is also helpful in this respect and is partially reproduced below (Table 19).

TABLE 19

SOUTH AFRICA: IMPORTS BY COMMODITY GROUPS IN SELECTED YEARS*

(Thousand of Rand; Per cent of total)

	1957		1958	
Commodity Group	Value	Per cent	Value	Per cent
1. Finished Consumer Goods				
Perishable	33,028	3.0	34,172	3.1
Other non-durable	155,868	14.2	138,346	12.4
Durable	76,896	7.0	84,074	7.6
2. Finished Capital Goods	306,854	27.9	354,812	31.9
3. Intermediate Goods				
Raw Materials	97,972	8.9	90,764	8.2
Processed Intermediate Goods	429,018	39.0	408,760	36.8
TOTAL:	1,099,636	100.0	1,110,928	100.0

*Source: D.G. Franzsen, "Some Aspects of the Union's post war Experience," Growth and Stability in a Developing Economy (Pretoria: 1960), p.21.

The data in Table 19 not only support those in previous tables but also show the relative importance of imports of raw materials and processed intermediate goods in particular, both of which provide inputs for domestic industries.

A detailed breakdown showing the import content of capital formation is not available for all sectors, but Franzsen does present data based on information for large mines which indicate that only 14.9 per cent of capital goods used in the mining industry were imported in 1956 as against 20.4 per cent in 1946, 46.1 per cent in 1939, and 58.6 per cent in 1930.[9] The value of finished capital goods in 1957 (cf. Table 19) was 29.1 per cent of the gross domestic capital formation in that year (cf. Table 16). With the figure for the mining as low as about 15 per cent, it is evident that in at least some other sectors, the import content of capital formation must have been substantially above 30 per cent.

Some information on the structure of South African economy was provided recently by D.C. Krogh.[10] Krogh, who constructed an input-output analysis of South African economy, found that with only two exceptions a classification of South African industries, according to the relative strength of forward and backward linkages, corresponds closely to those made by H.B. Chenery and Associates for the U.S.A., Italy, Japan and Norway.[11] The relevant fact in this analysis was the predominance in the South African economy of industries with a high backward linkage.[12] This predominance of sectors with high backward-linkage is closely associated with a heavy reliance on imports for supplying the necessary inputs of the economy.

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[9] D.G. Franzsen, "Some Aspects of the Union's post war Experience," Growth and Stability in a Developing Economy (Pretoria: 1960), p. 21.

[10] D.C. Krogh, "An input-output analysis of the South African Economy 1956-57," South African Journal of Economics, XXIX (December, 1961), 4, pp. 258-269.

[11] cf. Hirschman, Strategy of Economic Development (New Haven, 1961), pp. 106-107. cf. Chenery and Clark, Inter-industry Economics (New York, 1959), p. 278.

[12] Krogh, op. cit., p. 264.

Apart from the import and export classes already discussed in the earlier part of this chapter, the foregoing illustration should suffice to indicate South Africa's great reliance on imports for her continued growth.

The implication of this peculiar structure of South Africa's economy was thrown into sharp relief in the decade after World War II. Brand expressing this phenomenon states that:

> The share of gross investment in National product reached an average of about 26 per cent over the period 1946-1958 as compared to about 20 per cent in the upswing of the 1930's. At the same time the relative share in gross investment of manufacturing industries, with its high import content of both capital formation and current inputs, increased to more than that of the mining industry, thus reducing the adequacy of the import financing junction of the gold mining industry and leading to severe pressures on the balance of payments.[13]

The pressures mentioned by Brand above occurred in spite of substantial net inflows of foreign capital.[14] The persistent running down of gold and monetary reserves from 1946 onwards forced the authorities to resort to direct measures of cutting imports of consumer goods. This cut was effected through the introduction of a comprehensive import licensing system in 1949, in terms of which preferential treatment was given to imports of capital goods and industrial materials.[15]

Measures designed to curb the level of domestic expenditure may be adequate in the short run but when they take the form of cutting down consumer goods, they pose a danger of inflation. Cutting down domestic expenditure means slowing down the rate of development. Cutting down on consumer goods apart from demanding corresponding deflationary policy

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[13] Brand, <u>op. cit</u>., p. 307. Note that references mentioned above have demonstrated this conclusion by adopting a series of approaches which we need not enter into for the purposes of this study.

[14] cf. Brand, <u>op. cit</u>., Table VII, p. 307.

[15] <u>Ibid</u>.

can, by no means, be regarded as a solution. It is on this basis that Brand suggests that a high rate of domestic savings should not deceive anyone but measures must be taken to restore international confidence in South Africa. This lack of confidence expressed itself by large outflows of foreign capital during 1960-61 after the Sharpville incident.[16]

Van Waasdijk, in his investigation into South Africa's terms of trade, contends that South Africa's present concern with falling prices--apart from the concomitant decline of real income in mining and agriculture--is explained largely by the growing importance of export earnings in the country's balance of payments. This is illustrated in the following:

> Had our present ratios of exports, and gold output to imports, been the same as those prevailing in 1938, more concern would have been felt at the fall in export prices. But unlike the prewar days, when the value of gold production amounted to two or three times the earnings from export, the latter source of foreign exchange now exceeds the value of gold production by some 80 per cent. Hence, the movement of export prices has become a matter of paramount importance to the country.[17]

In spite of the diminishing importance of gold as a major foreign exchange earner, its importance by now should be fairly clear. It may be said with some justification that had it not been for gold, the South African manufacturing sector would have had to come to terms with problems of efficiency sooner than it seems likely to. Gold has provided South Africa with foreign exchange to pay for its high import content, it has provided the revenue for subsidizing railways, agriculture and other serices. Gold has also enabled the manufacturing industries to maintain

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[16]This point will be developed later when we examine the balance of payments problems.

[17]T. Van Waasdijk, "Changes in South Africa's terms of trade, 1950-1958," South African Journal of Economics, XXVII (June, 1959), 2, p. 119.

inefficiency, stemming from careless use of labour resources because the urgency of their competitiveness in the international market was mitigated by the ease with which they obtained imported inputs of capital goods financed from gold mining revenue. This situation has been further prolonged by the opening of the Orange Free State gold mines which are a continuation of the Witwatersrand rock formation.

According to W.P. De Kock,[18] the history of these fields dates back to the early days of the discovery of the Witwatersrand. With the advent of geophysical methods of exploration, so successfully applied by the goldfields West of Randfontein, there followed a sequence of discoveries. This, allied to the increased gold price in 1932, and again in 1950, changed gold mining in South Africa from a rapidly declining industry in the early thirties to a strong, rejuvenated industry, which will not reach its zenith for several years to come. By 1951, the Free State gold fields had emerged from the prospecting stage and entered the development stage. The first two mines were expected to commence production within a year ending June, 1952, and the remainder within a decade. De Kock forecasted full capacity production by 1966. The tempo with which the remaining mines would enter the list of producers was considered to be dependent on several factors of which the availability of labour supplies would be the most serious.

The significance of these mines may be assessed from the following statement by De Kock:

> Present indications are that the grade of the 13 developing mines in the Free State will be appreciably higher than that on the Rand

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[18] W.P. De Kock, "The Influence of the Free State gold fields on the Union's Economy," South African Journal of Economics, XIX (June, 1951), 2, p.729.

and even if the prospective mines are included, it is still a reasonable assumption that the average grade in the Free State will be considerably higher than on the Rand. What the actual difference will be, can only be determined after much more intensive and extensive development has been accomplished. Tentatively, we can from all available evidence assume a grade of between 6.5 and 7.5 dwt., with an average of about 7 dwt. An esimate of the Government Mining Engineers' Department places the total gold production of the Free State at 350,000,000 ounces, valued at £4,344,000,000. In comparison, the total gold production of the Rand to the end of 1950 amounted to nearly 472,000,000 ounces, but as a large proportion of this production was sold at 84 shillings per ounce, the net selling price of the Orange Free State gold production at the current price would exceed that of the total gold production of the Rand to date.[19]

From the above, it seems self-evident that this enormous production, which represents new currency, would have a profound and lasting influence on the economy of South Africa.

It is rather difficult to assess the contribution of these mines over the last decade since figures isolating their contribution are not available. Yet their influence can be seen from the emerging centres of Welkom, whose attraction for industry and services remains a testimony that the Free State mines are going to play an increasingly important role in the growth of the economy. Needless to say that the 1950's experienced an upward trend in gold production as Table 20 below indicates.

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[19]Ibid., p. 146.

TABLE 20

ESTIMATED GOLD PRODUCTION OF THE WORLD AND THE PROPORTION PRODUCED BY SOUTH AFRICA

Year	Fine Ounces	South African Percentage
1951	25,866	44.5
1952	26,485	44.6
1953[a]	24,500	48.7
1954	25,900	51.1
1955	27,200	53.7
1956	28,300	56.2
1957	29,400	57.9
1958	30,300	58.3
1959	32,500	61.7
1960	33,900	63.1

[a]As from 1953, figures exclude U.S.S.R.

Source: A.J. Norval, A Quarter of a Century of Industrial Progress in South Africa (Capetown: Juta & Company Limited, 1962), p.151.

The Balance of Payments problems which characterized the 1950's are illustrated in Table 21. This table also underlies the role of gold in easing this problem.

Table 22 completes the pattern of trade that was outlined in the previous chapter. This table indicates that the most significant change in the origin of South African imports was the rising share of Western European countries.

From Table 22, it seems clear that the United Kingdom and Western Europe constitute South Africa's main source of foreign exchange. However, it is also evident that South African exports to underdeveloped countries, including Rhodesia and Nyasaland, are larger than imports from these areas in percentage terms. Rhodesia and Nyasaland had a very stable proportion of

South Africa's exports throughout the decade of the 1950's, whilst Europe had a much less stable series, a situation which seems to have coincided with some of South Africa's severe balance of payments strains.

TABLE 21

SOUTH AFRICA: BALANCE OF PAYMENTS

(£ m.)

	1955	1956	1957	1958	1959
Current Account:					
Export, f.o.b.	370	412	446	290	310
Import, f.o.b.	489	501	558	441	366
Trade Balance	-119	- 89	-112	-151	- 56
Net Export of Gold	183	193	214	160	185
Other Current Items (Net)	-109	-105	-112	- 88	- 87
Balance	- 45	- 4	- 10	- 79	42
Capital Account					
Official Loans	16	- 4	2	10	- 2
Short Term Liabilities	- 1	2	7	27	- 1
Net Private Capital Movements	10	9	- 29	20	- 18
Balance	25	7	- 20	57	- 21
Change in Gold and Foreign Exchange Holdings	- 20	11	- 30	- 22	21

Source: The Economist Intelligence Unit Limited, Union of South Africa - Annual Supplement (London, February 1960), p. 10.

TABLE 22

SOUTH AFRICA: EXPORTS BY COUNTRY OF DESTINATION

(Per cent of total; Excluding gold bullion)

Year	United Kingdom	Western Europe	Rhodesias and Nyasaland	United States	Japan	Others
1950	26.5	33.7	10.20	8.7	-	20.9
1951	24.0	29.5	11.27	10.7	0.7	23.8
1952	25.2	33.9	12.08	7.0	1.5	20.2
1953	26.2	31.5	12.50	6.0	1.0	22.8
1954	29.0	21.9	15.50	7.5	2.0	24.1
1955	31.2	18.0	15.0	8.0	1.6	26.2
1956	29.3	23.4	14.9	7.8	2.3	22.3
1957	27.3	21.9	14.4	6.3	2.2	28.9
1958	29.8	18.3	13.7	7.1	1.3	29.8
1959	28.1	18.1	13.7	9.1	3.1	28.0
1960	30.0	37.5	13.2	6.8	3.8	18.7

Source: Adapted from Union of South Africa, Trade Statistics, Department of Customs and Excise (1950-1960)

We have dealt se far with internal variables which have raised South Africa's propensity to consume foreign exchange in excess of its earning capacity. We have outlined the role of gold in this development. We have also indicated the pattern of trade that flows from this structure. Yet, among the most influential factors in South Africa's growth were exogenous variables. The Second World War helped South Africa's manufacturing industry by lessening competition which would otherwise have come from European producers. The post-war boom sustained the process of growth by providing a growing demand for goods and services. The Korean War further reinforced this process. It is in the light of the above that the following remark becomes relevant:[20]

> The past eighteen months to two years have, over a large part of the world, been characterized by a resurgence of inflationary

[20] E.H.D. Arndt, "Address by Deputy Governor of the South African Reserve Bank to a meeting of shareholders August 8, 1956," South African Journal of Economics (September, 1956), 3, p. 184.

> pressure and the increased application of the various instruments of monetary policy as a means of countering this trend, even in countries such as Australia, which had formerly relied almost exclusively on direct controls. In the United States, for example, the discount rates of the majority of Federal Reserve Banks were raised progressively from 1½ to 2¾ per cent by April, 1956, while in the United Kingdom the rate was likewise raised from 3 per cent to 5½ per cent by February, 1956. In fifteen countries of Europe and the Commonwealth alone, no fewer than twenty-six rate increases were effected between the beginning of 1955 and June of this year (1956).

According to the same author, the basic trouble was an excessive level of aggregate demand. Whether this was due to increases in private consumption, government spending, or investment, it did lead to overall full employment and inflation.[21] As might be expected, South Africa was, by no means, an exception. There were however some labour shortages, bottlenecks of various kinds, back-logs in respect of housing, power, transport and other services.

According to the same address, during the year ended in June, 1955, the Union's net income increased by £187 million to a total of £1,633 million. This was equivalent to 5½ per cent increase compared to 8½ per cent the previous year.[22] With allowance made for the general increase in the price level and the normal population increase, the real national income per head of population would appear to have increased only slightly. The Union's balance of payments, which in 1954 had shown a surplus of £44 million, revealed a deficit of £20 million in 1955.

On the current account, exports of merchandise increased by £37 million in 1954-55. This increase was caused mainly by an increase of £15 million in exports of ~~[illegible]~~. Although diamonds lead, fruit and maize

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[21] Ibid.

[22] Ibid., p. 187.

accounted for a further £13 million, net gold output increased by £18 million. The liberalization of import control during the second half of 1954 and early 1955, however, was reflected by an increase of £48 million in merchandise imports for the year ending June, 1955. Net payments on visible account also increased by £15 million. The effect of the latter increase was a reduction of £2 million in the deficit on current account to £28 million.

The capital account showed a marked deterioration in 1955 as compared to 1954. The net capital inflow fell from £74 million in 1954 to £8 million in 1955. The net official receipts amounted to £13 million. There would appear to have been a net inflow of £3 million in private capital. The latter excludes a decline of £2 million in short-term foreign liabilities of the banks. Identified receipts of private capital amounted to £14 million, and the net outflow of unidentified private capital was in the neighbourhood of £17 million.

This last mentioned outflow, according to Arndt,[23] consisted almost entirely of sterling. It took place mainly in the second quarter of the year ending June, 1955. The principal factor responsible for this outflow would accordingly appear to have been a considerable net sales of South African gold shares by United Kingdom holders to Union residents. But it is also possible that higher rates of interest prevailing in London markets encouraged retention of some South African funds in that centre and also expedited remittance of funds to meet obligations in the United Kingdom.

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[23] Ibid., p. 188.

The decline of £20 million in the Union's reserves during 1955 had been anticipated when further relaxation of import control was agreed upon towards the end of 1954. It, therefore, gave no cause for alarm. The reason for this relaxation seems to have been an expected increase in gold and uranium output as well as an anticipated increase in exports.

The following year (1956) was described by the Governor of the Reserve Bank as follows:

> The outstanding feature of the Union's balance of payments in 1956 was that, for the first time since the end of the war, it showed not only a surplus on current account, namely £10 million, as contrasted with an average annual deficit of £39 million during the three preceding years, but also a deficit of £2 million on capital account, as compared with an average annual surplus of £37 million during the three preceding years.
>
> On current account, there was an improvement of £38 million between 1955 and 1956, which resulted from increases of £15 million in the net gold output and £42 million in merchandise exports as against increases of £19 million in imports and £10 million in net current invisible payments abroad, mainly in respect of freight dividends and profits. Of the increase in merchandise exports, uranium accounted for £9 million, other mineral products accounted for £10 million, wool £13 million, and other products £6 million, while, in the case of imports, there was an increase of £12 million in Government stores as against a decline of £13 million in other imports. On capital account (including trade credits) the deficit of £2 million resulted from net repayments of more than £3 million in respect of official loans as against a net inflow of private capital of approximately £1 million.[24]

From the same address, the following facts emerge: namely, that South Africa received £2 million from drawings under a loan granted by the World Bank at the end of 1955.[25] On the other hand, repayments of foreign debt by the Government amounted to £5,400,000 of which £3.6 million represented instalments due under previous loans granted by the

[24] M.H. De Kock, "Recent Economic and Financial Developments in the Union," South African Journal of Economics, XXV (September, 1957), 3, pp. 187-202.

[25] Ibid., p. 190.

International Bank, and £18,000,000 a repayment, at maturity of a five-year loan from a group of American banks. These net repayments of over £13 million during 1956 were in sharp contrast to the net receipts of £13 million during 1955, which accrued from loans raised by the Government in the United States and the Netherlands.[26]

In the case of private capital movements, however, the net inflow of £1 million during 1956 contrasted with net outflow of about £3 million during the previous year. There was, however, also a decrease in net identified private receipts from £14 million in 1955 to £12 million. This means that the net outflow of unidentified private capital declined from £17 million in 1955 to £11 million in 1956.[27] This fact would appear to be attributable to a substantial decline in net sales of South African securities by foreigners to Union residents; and to the restriction imposed by the Government on exchange transactions with the Sterling Area by Union residents. This device was intended to protect the local market against the attraction of the considerably higher level of short term rates ruling in London during the period from February, 1956 to February, 1957.

In March, 1957, the Government decided to introduce further relaxation of import control. The effects of this showed in the balance of payment setback of the year ending June, 1958. There was a sharp decline in the Reserve Bank's gold and foreign exchange holdings from £126 million at the end of June, 1957, to £76 million at the end of June, 1958. This tendency contrasted sharply with the favourable

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[26] Ibid.

[27] Ibid., p. 191.

developments prior to the year 1957/58.

This is revealed by the report of the Reserve Bank when it states that:

> Revised balance of payments estimates, incorporating results of 1956 census of foreign assets and liabilities, taken by the Reserve Bank indicate that, during that year, the Union had a surplus of £11 million in its total balance of payments, namely a surplus of £4 million on current account and a net capital inflow of £7 million. As far as the current account was concerned, the attainment of a surplus represented a great improvement over the preceding ten years, which had shown a substantial annual deficit. Moreover, during the first half of 1957, the position improved even further, in the sense that the customary seasonal deficit on current account was reduced to nil, as compared with £30 million during the first half of 1956. Indeed, during the twelve months ended June, 1957, the current account showed a surplus of no less than £34 million, which probably constituted a peace time record for the Union.[28]

It was against the background of these favourable trends that further relaxation of import control were introduced in various stages during 1956/57. It was from the middle of 1957, however, that the position of the current account began to change. During the second half of 1957, for example, it showed a deficit of £13 million as against the surplus of £34 million during the corresponding six months of the previous year. De Kock suggests that:

> The reason for this sharp deterioration on current account was, firstly, an increase of £45 million in imports over the figure for the second half of 1956, as compared with an increase of only £11 million in total exports excluding the net gold output, and secondly an increase of £13 million in net current invisible payments.[29]

The current deficit, however, was not the major factor responsible for the decline in the Union's gold and exchange reserves during 1957, taken as a whole. According to later estimates, it accounted for only £13 million

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[28] M.H. De Kock, op. cit., XXVI (September, 1958), 3, p. 185.

[29] Ibid., p. 188.

of the total decline of £31 million during that period. The remainder was attributable to a net capital outflow of £18 million, namely a net outflow of private capital of £27 million as against a net inflow of £9 million in respect of official and banking institutions, including short term advances of £7.1 million received by the Reserve Bank from an International Banking institution.

As regards the outflow of private capital, net repayments of unidentified loans amounted to £10 million, while stockbroker returns showed net purchases by Union residents from foreigners of about £12 million of Union securities. According to De Kock, in addition to long term investments made by Union residents in other countries, there was a net outflow of short term funds. Furthermore, the Union financed a larger proportion of its foreign trade itself.[30]

To a large extent these capital movements would appear to have been attributable to higher interest rates elsewhere and the lax application of exchange restrictions which were then in force.

As far as the first half of 1958 is concerned, there was actually an estimated net capital inflow of £41 million. The Union Government received £12.9 million from the International Monetary Fund, £2.1 million net from the International Bank and £8.5 million from loans raised in New York. The Government, therefore, received a net amount of £23.5 million from abroad, while the Reserve Bank obtained a further advance of £3.6 million. In addition, there was also a net increase of £10.6 million in the foreign liabilities of the commercial banks. As regards other capital movements, there was a net inflow of about £3 million, after

[30] *Ibid.*, p. 189.

allowing for net repayments on uranium loans of £2.4 million.

Notwithstanding this net capital inflow of £41 million, the Union's gold and exchange reserves showed a further decline of £29 million during the first half of 1958. Thus there was a current deficit of no less than £70 million.[31]

Taking the year 1957/58 as a whole, total exports were only £16 million lower than during the preceding twelve months, whereas imports showed an increase of no less than £80 million. Thus, it can be said that there was an abnormal increase in imports especially of motor vehicles and textiles.

In the year 1958/59, there were some changes in trends. From July, 1958, imports were in every single month lower than in the corresponding month of the previous year. The result was that total imports in 1958/59 amounted to £505 million as compared with £593 million in 1957/58.[32]

Merchandise exports, unfortunately, also declined further during the second half of 1958. Compared with £445 million in 1956/57 and £419 million in 1957/58 for example, they amounted to only £391 million in 1958/59. Fortunately, however, the net gold output increased from £214 million in 1957/58 to £233 million in 1958/59. The net effect of all these changes was that the current balance of payments changed from a deficit of £78 million in 1957/58 to a surplus of £14 million in 1958/59.

In describing the year 1959/60, De Kock contrasts it with the two previous years, and accordingly:

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[31]Later estimates placed the current deficit at £78 million.

[32]M.H. De Kock, op. cit., XXVII, 3, pp. 203-218.

The third year 1959/60 emerges as a period of gradual return to more normal relationships between the main items in the current account. Thus imports increased from £506 million in 1958/59 to £537 million in 1959/60, which although still relatively low if account is taken of considerable decline in inventories between the middle of 1958 and the first quarter of 1960, would nevertheless appear to have been a level at least more normal in relation to gross national product, than that of either of the two preceding years. Merchandise exports, in turn, increased form £391 million in 1958/59 to £453 million in 1959/60, which was somewhat in excess of the figure for 1956/57. Since the net gold output increased from £233 million in 1958/59 to £263 million in 1959/60 and net current invisible payment rose by £6 million, the final result was a further considerable improvement in the current account, namely from a surplus of £13 million (as revised) in 1958/59 to one of £68 million in 1959/60. [33]

From the same address, the following emerge:

(a) That on capital account, the balance of payments suffered a severe setback during this period.

(b) Compared with a net inflow of £31 million during 1958/59, there was a total net outflow of £71 million during 1959/60.

(c) That the official and the banking sector was responsible for a net outflow of £7 million during the latter period, which meant that we can suppose that the net outflow of private capital amounted to as much as £71 million.

The main factor contributing to this outflow was the net purchase by Union residents from foreigners of about £35 million worth of securities listed in the Johannesburg stock exchange. Although this took place mainly during the first half of 1960, there were already signs during 1959 of substantial selling by foreign holders. Thus, the net outflow, through this channel, amounted to £7 million during the first half of 1959, £14 million during the second half of that year and £21 million

[33] De Kock, <u>op. cit.</u>, XXVIII (September, 1960), 3, p. 194.

during the first half of 1960. In addition, there was again an appreciable net outflow of Union residents' funds for direct investment mainly in the Federation of Rhodesia and Nyasaland. In contrast to the previous year, there were also substantial net withdrawals by foreign investors of short term as well as long term funds through other channels than the stock exchange.

The net effect in the balance of payments was a decline from £118.4 million of foreign exchange reserves at the end of June, 1959, to £110 million at the end of June, 1960. This decline seems to have carried over into the year 1960/61 as De Kock's address indicated.

> The deficit in the South African balance of payments cannot, as has frequently been the case in the past be attributed to excessive imports relative to exports. According to provisional balance of payments estimates for 1960/61, compared with figures for the previous year, there was indeed an increase of £15 million in merchandise exports, and net gold output, but even after allowing for an increase of £22 million in net current invisible payments, there was still a surplus of £17 million on current account as a whole.
>
> The real cause of the net deficit was the continuation of a considerable outflow of capital. Thus while there was a surplus of £19 million on current account in 1960/61, the country's gold and exchange reserves showed a decline of £37 million. In short, there must have been a net capital outflow of £56 million, in addition to £82 million in the previous year.[34]

This capital outflow during the two years (1959/60 - 1960/61) originated entirely from the private sector in contrast to the official and banking sector. The latter was actually responsible for a net inflow of about £3.5 million during this period after taking into account drawings of £13.5 million on the International Monetary Fund. The net

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[34]De Kock, op. cit., XXIX, 3, p. 176.

capital outflow, however, amounted to £141.5 million in 1959/60 and £69 million in 1960/61.

The main reason for this continuous private-capital outflow would seem to be the decline in foreign confidence in South African investments, which was accentuated by police shootings of unarmed men, women and children protesting against apartheid restrictions. This event took place in Sharpville in March, 1960. De Kock suggested, however, that this attitude of foreign investors can be attributed to indiscriminate association in their minds, of conditions in South Africa with those of other parts of Africa.

The decade of the 1950's closed, therefore, with South Africa's economy having clearly defined the crucial role of foreign exchange and foreign capital in meeting the requirements of the growing economy. Thus the effects of protection has been to foster an economy heavily dependent on foreign trade.

CHAPTER VI

CONCLUSION

The growth of the South African economy has indeed been phenomenal. The role of gold in this development has been almost all-persuasive. Its discovery opened South African industrialization. It also brought with it large supplies of foreign capital which have played an important role in South Africa's growth. Even as recently as 1960, gold alone accounted for 38 per cent of the country's exports, and over 40 per cent of the import bill was paid from gold reserves. Thus, the entire growth of the manufacturing sector of the economy owes its inspiration to the gold mining industry. Improvements in the agricultural sector were stimulated by the market which the gold fields fostered and the ports which served it.

However, the years that are relevant to this study reveal that South Africa's development has been characterized by a continual trade deficit which as the country advanced, could not be adequately offset by gold production. This means that the South African economy, as it developed, increasingly became reliant on trade. With development, there was a proportional increase of pressure on foreign exchange reserves. This phenomenon, was both the result of the developmental process itself and of income effects. It is in this regard that import restrictions have been instrumental in restraining the drain of foreign exchange reserves.

The relative stickiness of native wages must have done much to ease inflationary forces which the economy would inevitably have faced in the presence of stringent controls on consumer imports. The extent to which this influence has been exercised is difficult to assess with the available data; however, this policy (which was pursued partly as a convention and partly enforced by Statute) has not been without its cost. The restriction of non-whites to unskilled occupations has tended to cause a waste of labour resources in the manner outlined by H. Myint. Migratory labour has had its cost in terms of both loss of efficiency in production and the general disruption of traditional Bantu life and culture. The African peoples have not received an acceptance into the industrial community of which they are a part. Their tribal social patterns can no longer offer them security in a vastly changed environment. Finally, migrant labour system encourages the numerous Africans to become acquainted with a variety of occupations without ever becoming competent in any. This is a serious impairment to their productivity.

It has been stated earlier that the cheap labour policy of South Africa encourages an equally careless attitude in management. It has also deprived management of the motivation that underlies technical progress. The management is not compelled by rising labour costs to create labour saving techniques which, in turn, can stimulate the general productivity of the economy. Thus, after twenty-five years, South African manufacturing industry could not earn, unaided, its requisite foreign exchange.

The other significant inhibiting factor to economic growth in South Africa has been the chronic shortage of skilled workers. These have had to be supplied by immigration from Europe at a cost that seriously prejudices South African competitiveness in its manufactured products. This situation has had the general effect of cancelling any gains the country might claim from the existence of cheap labour policy.

The general picture which emerges from this study is that of an economy with a high import-consumption, non-competing labour groups, inefficient manufacturing sector, that is caught between the country's racial policy on the one hand, and the demands of efficiency on the other. The underlying trends would seem to indicate that inefficiency will be preferred to an integrated non-racial society.

For developing countries, however, the South African experience has much to offer. It is clear from this study that the growth of the South African economy has been influenced to a very large degree by the government, through a great variety of instruments, such as credit facilities for young industries, public investments where risks are too large for an individual investment, the setting up of Research Institutes and other organizations specifically concerned with fostering growth. The establishment of the South African Coal, Oil and Gas Corporation, Iron and Steel Industrial Corporation Limited and others, feature prominently in this regard. The setting up of the Council for Scientific and Industrial Research is a laudable attempt at making available fruits of research to small industries—a feature which has become permanently associated with economies of scale characteristic of large corporations.

Yet the relative sparseness of the country's population and relatively low purchasing power of the non-whites, who form a large portion of the population, inhibits the development of an internal market required to stimulate potential exporters.

The degree to which South Africa's non-economic factors have inhibited growth is apparent, but remains difficult to assess in quantifiable terms. Its racial policies have greatly poisoned attitudes affecting relations between men of different races at the time when serious attempts are being made elsewhere to improve race relations. The denial of rights to people whose only crime is their race, seems difficult to justify in a world that seeks to efface the past and tackle serious economic problems of underdevelopment.

The developments in March, 1960, when a crowd of men, women and children, protesting against the inhuman restrictions which South African racial policy imposes on them, were ruthlessly dispersed, do not augur well for the future. International conscience was stirred with the stock exchange providing the most spectacular indicator of the effects of the collapse of confidence both inside and outside the Union. Though gold shares were exposed to a wave of selling from February onwards, the index of the Orange Free State gold mine shares was still at 128.0 (1958 = 100) immediately before the Sharpville violence.[1] Thereafter, prices fell steeply and the Orange Free State index was down to only 102.9 by May 10 of the same year.

'Industrials' also declined, though less seriously, from 116 on March 15 to 103 on May 10. The total fall in the Union security values since March 18, the date of Sharpville, has probably been in the order of £200 million.

However, South Africa survived this crisis and the early sixties seem to have experienced a boom which started in 1962 ending with the close of 1965.[2] The Government was largely instrumental in bringing about

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[1] c.f. Economist Intelligence Unit Ltd., "Union of South Africa," Quarterly Economic Review (London, June 1963), p. 63.

[2] American Committee on Africa, "A special report on American involvement in the South African Economy," Africa Today, XIII (New York, January, 1966), p. 10.

this recovery as the following indicates:

> One other side of foreign interests in South African economic affairs is the outright loans or credits which the U.S. and International banks have made to the South African Government. Initially loans from the U.S. banks and from the World Bank and Export-Import Bank of Washington were made in the fifties to help finance expansion of transportation and power systems. But following a severe drain on South African reserve in 1960 after the debacle at Sharpville, more than $100 million was raised or renewed for South Africa. In addition to these loans and credits, the South African Government was forced to take measures to cut imports and deny repatriation of capital to foreign countries. At one point, the gold reserves dropped below the $2.8 million mark despite these checks, although eventually the protective policies and credit extended by the International Monetary Fund and private individuals and institutions had their effects and the South African economy again revived and made a tremendous come back.[3]

From recent reports, it would appear that the most recent boom further accentuated the balance of payments problem. A major crisis in currency reserves was only averted by a large inflow of capital. It would seem that the economy is not entirely out of danger as the following suggest: "Clearly the boom has ended, and with it inflationary pressures. But then what happens if foreign capital, most of which is short term, is withdrawn? Private capital saved the economy in 1965, it could just as easily wreck it in 1966."[4]

Some of the anxiety seems to stem from the upward pressure of wages and salaries which, having been raised in certain sectors of employment, may continue to rise in the remaining sectors of the economy. This it is felt might further prejudice the competitive position of South African exports at a time when the country needs them so badly for continued growth.

Concerning the direction of South African trade, conclusions are even harder to draw. Whilst it may be inferred that South African demand

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[3] Ibid.

[4] Economist Intelligence Unit Ltd., op. cit. (January, 1966), p. 4.

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pattern is like that of most developed countries, it may be equally inferred that this is purely an income effect resulting from the growth process peculiar to all developing countries as they experience rising levels of income. It will be recalled that according to S.B. Linder, as cited earlier in this study, trade in primary products is explained mainly by factor endowments, while trade in manufacturing is explained mainly by similarity of demand patterns in the trading countries. Industries are supposed to develop in a country because of the existence of an internal market potential. An industry is able to expand and export once the home market has grown to enable industry to attain significantly large scale economies to become competitive in world markets. The strongest market is, in turn, found in a country with a similar per capita income.

Deviations from this pattern are perhaps obvious in the South African case, because of the sparseness of the population and because the purchasing power of the native population is artificially limited. Yet manifestations of Linder's argument appear when we assume Rhodesia, Zambia and Malawi (formerly the Federation of Rhodesia and Nyasaland) to be South Africa's internal market. Most of South Africa's manufactured products have been finding their strongest market in this area during the period 1950-1960. Thus, an average of 14 per cent of South African exports went to this area whilst South Africa only obtained 3 per cent of her imports from this region. Otherwise, South Africa's trade would seem to be strongest in those products which Linder earmarks as dependent on factor endowment and her relatively weak manufacturing sector would seem to indicate that in spite of the Rhodesian market, her internal market is not optimum. Most of her imports, however, come from the already developed countries, notably the United Kingdom and Western Europe. Inasmuch as a substantial portion of

South Africa's exports found their way to other underdeveloped countries, these countries cannot be considered strong markets as the percentage trade with these was spread wide and thinly. In view of this, there would seem to be a great deal to be said for Linder's argument though more studies would be required to generalize it.

Given the problem which the racial attitudes of its ruling minority introduce into the economic fabric, South African growth has indeed been remarkable. It is to be regretted that a country with so much potential should be hampered by old fashioned race relations. Greater use of indigenous labour (African) more efficiently would improve the performance of the economy considerably. By cutting costs to reasonable levels, the economy could enhance its competitiveness abroad. This would, in turn, lead to a general improvement in the living standards of 80 per cent of South Africa's people. The internal market created thereby would further strengthen the struggling manufacturing sector laying a solid foundation for a modern economy with mass consumption.

The implication of a healthy, well-developed economy in the Southern tip of Africa could greatly aid in the growth of its northern neighbours instead of the painful relations to date that are caused by South Africa's racial oppression within.

There are enough signs, however, that the Government, within the limits imposed on the country by apartheid and the international community's reaction towards it, has done much to sustain the present rate of growth. Politically, this has been done by repeating to the world that the Africans have a homeland somewhere in the country. By this repetitive process, the world will finally believe, it is hoped. At this point in the development of South Africa, domestic capital formation is sufficient to finance a $5\frac{1}{2}$ per cent rate of growth. This does not mean that foreign investment is, in any way, being discouraged for reasons which by now should be obvious to the reader. At the end of 1962, the total foreign investment in South Africa was $4.222 million, contributed largely by the United Kingdom (60%) and the United States (11%). Other major contributors were France with 6 per cent, Switzerland with 4 per cent and International organizations whose contribution amounted to 4 per cent.[5]

In 1962, the average net profit to net worth ratio for United States firms was 25 per cent, rising two years later to 27 per cent.[6] The return on raw investment is 13 per cent compared to a world average of 7.7 per cent.[7]

Funds for expansion tend to be supplied from undistributed profits. There is freedom for current profit, royalty and interest remittances and also for repayments of parent company loans. South Africa has, in addition, various tax allowances for re-investments of profits. These, together with export encouragement, fostered by deductions for exporters of 125 per cent of allowable expense incurred in the development of a new market, are some of the policy measures devised to drive the economy towards a greater degree of self sufficiency. These measures, combined with an enlightened labour policy, could bring to South Africa, a degree of prosperity that would create a healthy basis for improved race relations. Needless to say, these are indispensable in the interest of equity, stability and efficiency.

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[5]Union Acceptances Limited, op. cit., p. 39.

[6]American Committee on Africa, op. cit., p. 9.

[7]Ibid.

APPENDIX

The Composition of Imports(M) and Exports(X) by Group Classification for Selected Years* (Excluding Gold) (in £1000)

Year / Class		1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960
I (a)(b)(c)	M	4378	6475	5397	7257	9034	3932	3024	4731	3787	4155	4690
	X	79394	96316	80036	88938	82834	85506	91393	97652	73460	89520	81501
I(d)	M	19812	19385	26183	26843	25099	21392	21493	18572	19932	27286	24540
	X	25588	39507	35966	41759	63747	68815	75982	83424	84826	73606	80304
II	M	416	647	1027	1433	1495	1890	1957	2082	2089	1917	2100
	X	2409	2928	3157	3317	3698	3000	2576	2966	3553	3332	3374
III	M	955	1261	683	663	808	2759	3317	1711	1490	1877	1969
	X	894	875	872	1323	1001	1192	129	368	367	674	1081
IV	M	67764	132004	72653	84770	97160	88888	85328	96685	81426	76104	91451
	X	4476	6740	6930	8267	8515	6612	6889	7516	6702	7103	6659
V	M	100110	157218	160512	148722	145685	180587	216873	249897	245415	211247	251448
	X	26288	36864	44175	49692	63755	94612	116607	124008	111685	125850	136532
VI	M	11922	14293	17256	17231	16133	16181	16956	18517	19908	18903	20882
	X	24822	28472	21898	21452	20230	36892	38108	41493	36473	42935	44332
VII	M	33430	41163	39655	39693	43161	47135	51596	55637	52286	50555	51367
	X	4451	5139	4593	6079	8337	8495	9667	12018	9922	11845	10200
VIII	M	9429	14198	15142	12440	16265	20660	20495	22211	22755	23833	26457
	X	3862	2842	2994	2878	3677	3544	3727	4659	4331	4915	5595
IX	M	7104	14777	8381	9488	10085	14007	12968	14122	12421	13893	15065
	X	4852	6930	5916	6299	6572	6017	5994	6477	5278	6143	5505
X	M	10026	16072	14441	11407	13484	16962	10522	16626	15707	11540	13313
	X	1225	1875	1833	2157	2296	1913	2382	2544	2351	2466	2557
XI	M	10948	22763	19456	14541	17409	19841	10572	21626	21346	20725	23489
	X	1156	1929	2011	2112	2318	2464	2429	2899	2517	2757	2916
XII	M	2325	53301	4840	4525	5250	7816	5291	8259	8063	7681	8384
	X	46082	78720	74775	60124	8747	8760	9063	10781	10715	12391	11758
XIII	M	7401	10908	10576	10637	12346	14090	6857	19138	18832	18907	26373
	X	2711	3671	4098	4779	4541	4268	4883	5852	5180	5730	6579
Total	M	288621	456469	396206	389653	413056	456144	494883	549818	555463	488627	555604
	X	228212	313813	289256	299176	280172	331321	369834	402662	357363	389272	398893

*Source: Union of South Africa, "Annual Estimates of Trade Statistics", Department of Customs and Excise (Pretoria, 1950-1960 inclusive).

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