Section 3. The roots of inequality in South Africa

Inequality in South Africa is rooted in military conquest and political exclusion, which took a colonial and racial form, and was buttressed by continuing repression of political and social organisation. Conquest began with the establishment in the 1650s of a Dutch shipping outpost on the southern tip of Africa, which developed into the city of Cape Town. Over the next two centuries, there was gradual expansion into the interior by the Dutch and then the British (who took over in the early nineteenth century), and defeated indigenous groups were not fully incorporated into colonial and settler societies, retaining considerable economic autonomy. The drive for political control of the region accelerated sharply after mineral deposits were discovered – diamonds in 1867 and gold in 1887 – and demand for unskilled labour rose. By the start of the twentieth century, contemporary South Africa and most of the neighbouring countries had been brought under British imperial control. Conquest culminated in the defeat of the Boer settler republics in 1902. The peace settlement inscribed racial discrimination in the foundations of the new South African state constituted in 1910 from the British colonies of the Cape and Natal and the Boer republics of Transvaal and Orange Free State.

Conquest and political exclusion were the ‘initial conditions’ shaping black peoples’ unequal access to resources, their potential for asset accumulation, and the returns from their assets. Inequality was deepened by the pattern of economic growth and development after the mineral discoveries. The forced labour regime in mining established the migrant system and provided the foundation for racial discrimination in the labour market and in the workplace as the secondary and tertiary sectors developed. Mineral surpluses were increasingly channelled to domestic industrial growth (rather than remitted abroad) from the First World War after manufacturing import substitution was boosted by shipping restrictions. In the 1920s, manufacturing development was the focus of policy: tariff barriers were introduced, large-scale iron and steel and energy works were established by the state to supply the mines, and foreign multinationals entered, seeking consumer goods markets amongst the white population. Domestic output of labour-intensive consumer goods accelerated after 1933, when currency depreciation due to the international gold standard’s collapse, and shipping disruptions

during the Second World War, each provided effective trade barriers.

After 1945, growth was led by the expansion of capital-intensive production for the domestic market of both consumer durables (autos, electrodomestics) and heavy intermediate goods. In contrast to the east Asian economies where labour-intensive import-substitution followed by labour-intensive export-promotion contributed to higher employment rates and greater equality, South Africa (like other primary commodity exporters like Brazil and Argentina) opted for a domestic market focus on reaching the end of the first ('easy') phase of import substitution. This strategy was linked to building domestic political support amongst the urban middle class and skilled industrial workers, that is, the urban white population in the South African case. Raising white living standards implied a widening racial gap, exacerbated by increasing capital-intensity and limited labour absorption, raising black unemployment from the late 1960s.

South Africa's resource base and strong mining export performance financed imports of investment goods, making strong long-run growth possible in the 1950s and 1960s, though with an unequalising impact between races. The fixed gold price in the Bretton Woods international monetary system was important for export revenue stability, in contrast to most other commodity exporters. State-owned heavy industry was critical in providing cheap inputs – energy, steel, transport – to domestic firms (Fine & Rustomjee, 1996). Nonetheless, when import substitution exhausted itself by the start of the 1970s, the manufacturing sector had not become internationally competitive: labour productivity was low because of the apartheid labour and education systems, while low effective protection on machinery and assembled intermediates limited backward integration into these sectors. As a result, import dependence in manufacturing was high, and the cost structure inflexible (Kaplan, 1991). From the late 1960s, long-run manufacturing profitability began to falter, reflecting these supply-side problems. This was an important factor in the economic crisis and decline in long-run growth from the 1970s, which in turn was one of the impulses for the political transition to democracy (Gelb, 1991).

Before examining the 'crisis' and transition in more details, we look here at the manifestation of inequality in relation to land, labour and capital, the factors of production.

(i) Land.

The Natives Land Act of 1913 restricted land ownership for Africans to certain specified areas mostly in the north and east, initially about 8% of the country's land area but extended to about 13% in the 1936 Native Trust and Land Act. The balkanised 'reserves' thus demarcated by legislation laid the foundation for the 'bantustan' system, in which rights of political representation for Africans were attached to these areas. Many Africans continued to live in rural areas reserved for whites, as tenants and labourers on white farms but also on their own land. From the 1960s, the government stepped up forced removals, moving nearly half a million people, but the attempt to shift all Africans into the 'bantustans' did not succeed: "there never was a 'white man's country' in the sense [of] zones of numerically predominant white occupation, only in the sense that whites…exercised control." (Beinart, 1994, p14).

In 1994, South Africa's land distribution was "comparable in its inequality to...many Latin American countries [with] a similar history of European conquest and settlement. What sets South Africa apart…is the relative emptiness of much of its rural landscape….[R]ural villages, settlements, scattered farms and homesteads of farm labourers …are rare" (World Bank, 1994, p22). In the early 1990s, 67000 white farmers owned 85.8 million hectares amounting to 86% of agricultural land, supporting a population of 5.3 million people or 16.2 hectares per rural resident. White commercial agriculture – producing 90% of agricultural value-added – had developed on the basis of limited competition due to the restrictions on black land ownership, and was further assisted by substantial state support from the 1930s on, via marketing boards, subsidised credit and generous rural infrastructure and extension services. By contrast, 13.1 million Africans lived in the bantustans on 17.1 million hectares, less than one hectare per person. Though some black commercial farmers did emerge and survive, most farming was for subsistence, but was unable to meet needs – the bantustans were net food importers. The World Bank concluded that the bantustans "should be viewed

as labour reserves, *not even* as the subsistence sector of a highly dualistic agricultural system." (1994, p22; emphasis added)

In the urban areas, the Group Areas Act of 1950 restricted property ownership rights to specified areas for Africans, as well as for Coloureds and Indians. Together with the migrant labour system restricting Africans' movement into the urban areas, this contributed to severe housing shortages in the cities, and also prevented home ownership for Africans and limited collateral available for loans.

(ii) Labour.

Political conquest enabled the large unskilled labour supply needed in the gold mines, where a strictly segmented labour market was put in place. Black male workers – many from other parts of Southern Africa – were forced into short-term migrant labour contracts providing little employment security, and housed in repressive single-sex compounds on the mines. Labour organisation was suppressed, often violently, and a strict colour-bar enforced in the occupational hierarchy. Labour systems in other industries were initially similar to the mines, but a settled semi-skilled urban African working class slowly evolved from the 1920s. Consumption levels in urban African townships were initially at rural levels, and real incomes of urban blacks grew very slowly. The colour-bar in manufacturing slowly floated upwards after 1945, as demand for semi-skilled labour increased and firms tried to lower labour costs. At the time, white women were moving out of the labour force and being replaced by African males, but white men continued to benefit from racially preferential recruitment policies introduced in the 1920s for low-skill public sector jobs. Migrancy remained a central feature of labour supply into the 1980s, shaping the gender balance within rural households and restricting black women's participation in the labour market. The statistics do not convey the social and individual consequences of migrant labour. Wilson and Ramphele (1989, p199) cite a few personal expressions from an early 1980s study of the migrant system's impact on families: children of migrants going to town: "we find our fathers with concubines yet our mothers are starving"; wives of migrants: "for our husbands we are just their old-age home or their hospital"; and male migrants themselves: "in the towns

we are just like water spilt on the ground."

Though African urbanisation continued to be restricted via the draconian 'pass laws' which tied urban residential rights to employment, industrial growth meant that about one-third of Africans were urbanised by 1960. But rising capital-intensity meant African workers were not absorbed into urban employment in sufficient numbers, so that open unemployment began to rise from the 1960s, though it was managed politically via containment within the bantustans. African trade unions were excluded from the official industrial relations system from the 1920s until 1979, though workers organised nonetheless and there were intermittent periods of strikes and union activity.

White workers were incorporated into economic growth along similar lines as industrialised country workers after 1945, moving into skilled and supervisory positions with steadily rising real wages supporting suburbanisation and mass consumption of consumer durables produced in the domestic economy. Very favourable systems for collective bargaining, social welfare and provision of consumption subsidies and credit helped this process. A good indication of the pattern is car ownership which nearly doubled each decade from the 1940s to the 1980s: white car ownership per capita in the 1960s lagged only the US, Canada and Australia (Beinart, 1994, p174).

Access to labour skills was also racially defined. Church-based schools were available to African children until the 1950s, when the apartheid government introduced 'bantu education', focussed on limited technical and vocational skills and instruction in the vernacular. Although the number of African children in school grew, they remained concentrated in the lower grades – between 1950 and 1960, for example, enrolment doubled, but the proportion in Grades 1-4 remained at 73% (Christie & Collins, 1984, p 178). Even after per capita spending on education increased from the mid-1970s, educational outcomes for Africans were still poor. In 1989, the African pupil:teacher ratio was 38:1 compared with 17:1 for whites, while 52% of teachers in the African school system were underqualified. Not surprisingly, Africans' pass rate for the school-leaving exam was 41% compared with 96% for whites (Hofmeyr & McLennan, 1992, p176). At the post-secondary level, blacks were excluded from established English-language universities from the 1950s, and admitted only to segregated 'bush colleges' set up in

the 1960s.

(iii) Capital.

'Market forces' limiting black access to finance were reinforced by legislation. The 1950 Group Areas Act explicitly restricted firm ownership by blacks to specified areas in cities and towns, and later regulations prevented black entrepreneurs from owning more than one business, from establishing companies or partnerships, or owning business premises even in 'black' areas. African firms were further restricted to certain markets, only 25 activities – mainly retail supply of food and fuel – being allowed before the restrictions were partially relaxed in 1976. The spatial and racial restrictions on property ownership resulted in blacks' lacking collateral to borrow for asset acquisition, and the risks of ownership were increased by the insecurity of urban residential and workplace tenure. As a result, there were very few black South African firms in the medium-size category and in manufacturing – the capital structure had a 'missing middle'.[18] Until the 1990s there were almost no large black-owned firms either. A 1990 survey of two (broadly representative) urban African townships found that 70% of firms were in commerce and trade, and only 17% in manufacturing, about half the proportion found elsewhere in Africa. The average firm had only 2.1 employees, including the proprietor, family workers and trainees. More than half of the firms were younger than three years, and women ran 62% of all firms, but only 43% of manufacturing firms (Riley, 1994, p 12-16).

[18] In 1997, only 12.3% of formal sector employment was in medium-sized firms, with 51-200 employees.