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**Title:** Mishap or Crisis? The Apartheid Economy's Recent Record in  
Historical Perspective.

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MISHAP OR CRISIS? THE APARTHEID ECONOMY'S RECENT RECORD  
IN HISTORICAL PERSPECTIVE

"The last few years were among the most difficult we have experienced and called for sacrifices by one and all. But that those sacrifices were worth it is clear now: the economic tide has turned towards growth and development and we can justifiably look ahead with new confidence."1

"... overpowering economic and political forces [have] combined to produce a comprehensive structural crisis for the apartheid economy... That there is no hope for the apartheid economy is now no longer in question."2

Introduction

The South African economy has performed poorly in recent years. One line of interpretation views this poor performance as a severe and unfortunate cyclical downswing from which the economy is slowly recovering. Another by contrast regards it as symptomatic of an economic crisis; many variations between these views can be found. This is of course an ideologically-loaded issue since the 'mishap' position is associated with the South African government and the 'crisis' view with its left-wing opponents who foresee national economic recovery only once significant economic and political restructuring of society has taken place.

I shall begin by describing the recent economic record of South Africa in its post-War context, and draw out some causes of the current decline. I will then consider whether the causes of decline are temporary/cyclical or long-term, whether they are likely to weaken or worsen, and how the decline as a whole should be characterised.

The South African Economy since World War II

To understand the economic prospects of South Africa, it is useful to examine its overall record since the Second World War.3 From the 1940s until 1974, an increasingly open and buoyant world economy with high demand for South African raw materials created ideal conditions for steady growth in the real Gross Domestic Product averaging almost five per cent per annum. Foreign exchange earned was used to import capital equipment and build up local manufacturing and technology behind tariff barriers. In the social sphere, vigorous state policies were designed to disorganise African workers and keep African wage levels low. While all sectors

of the South African economy grew over this period, three overall tendencies were particularly significant:

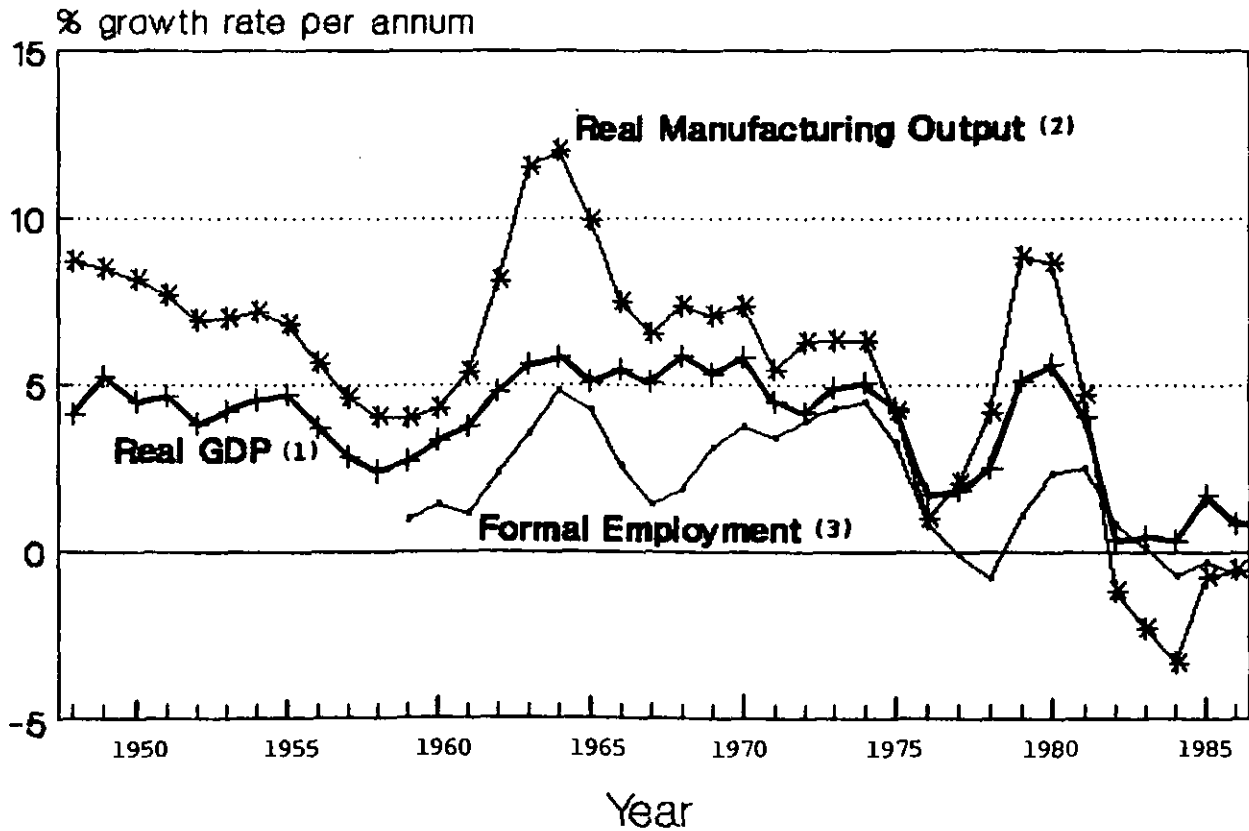
Firstly, agriculture and mining, the foreign exchange-earning sectors of the economy, grew relatively slowly. Their shares of real output fell slightly, and of employment more quickly (with an absolute fall in agricultural employment). Secondly, the other goods-producing sectors (manufacturing, electricity, and construction) grew more rapidly than the economy as a whole, and their shares of employment also rose. Thirdly, output and employment in the tertiary sectors (especially government) grew steadily, with employment probably contracting only in the personal services sector (led by domestic service).

There has been a steady slowdown in rates of economic growth since 1974; real GDP growth rates have fallen to 1.5 per cent in the 1980s (see Graph 1).<sup>4</sup> Growth rates have diminished unevenly through the economy, however. Due to rising and erratic world gold prices, mining earnings have boomed, while agriculture and manufacturing have struggled; since 1982, real manufacturing output and employment have been growing more slowly than in the economy as a whole. The tertiary sector has continued growing, led chiefly by government. Growth rates of formal jobs over the business cycle peaked in the 1960s and have been falling since (see below).

### Three Determinants of Economic Development in South Africa

Three central determinants of South Africa's economic record can be identified: the balance of payments, the performance of the manufacturing sector, and the employment situation. Firstly, the balance of payments has always been a potential constraint on growth in South Africa. Compared to most developing countries however, South Africa has an unusually promising balance of payments situation. The usual pattern is of a trade surplus produced by raw materials (agriculture and mining) exports, much of which is 'consumed' by industrial sectors being net users of foreign exchange, and large deficits on invisibles (interest payments, royalties, etc.). Capital inflows attracted by high profit rates have also been an intermittent source of investment funds and foreign exchange.

On the exports side, South Africa's position has not changed much post-War. South Africa exports have always comprised mainly raw materials, a small number of which come to a high share of total exports; the mining share in merchandise exports has averaged over 60 per cent. In imports terms, South Africa has been largely self-sufficient in consumer goods since the 1950s. The share of imported capital goods has risen since 1945, however, with machinery and transport equipment, for example, reaching 49 per cent of the imports

GraphsThree Growth Indicators for South Africa,  
1947-1986Note

Graphs are 3-year moving averages. Real output (1975 prices) data are calculated from South African Reserve Bank sources, reworked as described in my 'Best Laager' (see footnote 3). Sectors covered for employment are mining, manufacturing, construction, electricity, commerce, transport and government services; this data is unreliable before the 1960s. Important omissions are agriculture and most business and private services.

total in 1985. Hence, although South Africa has built up a capital-goods industry, the strong historical value of the rand permitted imported machinery to form a high proportion of capital goods used. As a result, balance of payments deficits have always tended to bite during boom periods in South Africa, with imports rising sharply, necessitating an eventual economic clampdown and monetary contraction.<sup>5</sup>

After 1971, the international gold price (which had been nominally constant in US dollars and falling in real terms since 1949), began rising, albeit erratically. This boosted mining revenues, eased South Africa's balance of payments constraint, and implied potentially higher domestic output growth rates if the extra income were to be used productively. The gold 'bonanza' was squandered however, and not used to extend South Africa's productive capacity significantly.<sup>6</sup> So, when the gold price fell in the 1980s, the economy suffered immediately, with an exchange rate under pressure, a weakened manufacturing sector, and high foreign debts.

The vulnerability of South Africa's balance of payments is revealed in two main areas. Firstly, her current account is reliant on raw material exports and imports of manufactures. Non-gold net barter terms of trade - the ratio of export prices to import prices - remain stable during international booms but deteriorate during slumps. Further, her export earnings tend to be erratic, dependent on variable international raw material prices and agricultural fluctuations. Gold was a stabilizing factor until the early 1970s but real gold earnings have fluctuated wildly since - though on an upward long-run trend.

Secondly, the trade and capital accounts of the South African balance of payments have been opened up since the later 1970s, with state moves towards a 'market-oriented monetary strategy' including financial deregulation, more variable and erratic interest rates, a more open balance of payments designed to encourage international trade and capital flows, and a floating and fluctuating exchange rate. This had two important effects: South African banks and the state raised foreign loans at (then) low real interest rates which had to be repaid at much higher real rates, and allowed a significant role for destabilising short-term capital flows. These have rendered the South African economy, balance of payments and foreign exchange situation more vulnerable to vicissitudes in the international economy in the 1980s, and also make it an easier target for sanctions.

A second important determinant of the long-run prosperity of the South African economy - as in any developing country - is the vitality of her manufacturing sector.<sup>7</sup> South African real manufacturing output grew rapidly in the 1950s and 1960s, growth rates averaging over seven per cent per annum (see Graph 2 above). There were several reasons for these high growth rates: buoyant international demand and stable terms of trade, an active state import-substitution policy and intervention in strategic economic sectors, cheap raw material and electricity inputs, capital controls compelling higher levels of local investment, and low black wages.

The record has negative aspects, however. The import-substitution programme combined with the strong currency led to a failure to export. International non-competitiveness of local production was accordingly entrenched via failure to achieve economies of scale and compete on international markets. Likewise, the industrial sector came to rely on protection and ever-more-advanced machinery imports, without achieving the full learning effects of producing a variety of capital goods for local use and for export.8

Real manufacturing import levels as percentage of GDP failed to fall over the years, as South Africa moved 'up' the imports scale, requiring increased inputs of imported machinery, transport equipment and technology to keep industry going. The 'easy' stage of import substitution in local consumer goods, some durables and simpler machinery was basically complete by the early 1970s, with further scope for import-replacement limited to capital and intermediate goods and high-technology sectors.

In the 1970s, manufacturing growth began to slow down and rather half-hearted government efforts at stimulating exports and the processing of primary products have not been effective. The recent record has been particularly poor; according to the South African Reserve Bank, manufacturing volume of production in November 1987 was 5.7 per cent below its 1981 peak. Manufacturing has begun to contract relative to other sectors (its share of nominal GDP fell from a high of 23.7 per cent in 1981 to 21.8 per cent in 1986), with inefficiencies and a limited internal market restricting local sales, and a strong exchange rate of the rand (until 1984) and trade sanctions limiting export growth. This poor manufacturing position implies slower future growth rates for the economy as a whole.

Thirdly, a major indicator of the health of any economy is the extent to which it can provide employment and incomes to its labour force. South Africa's performance was impressive in these terms until the early 1970s. Employment in most of the formal, high-productivity sectors of the economy grew steadily, with employment growth rates of 3.3 per cent per annum between 1964 and 1974 in those sectors for which more reliable official data is available (see Graph 3). African open unemployment rates seem not to have risen in the 1960s. Since then, the position has deteriorated drastically. Formal employment growth rates have fallen sharply in the past ten years, averaging only about one per cent per annum over the 1980-1984 cycle. African population and labour force growth rates have remained high, leading to a large and continually expanding pool of labour which is 'surplus' to the needs of the modern sector of the economy.9

To make the situation worse, the tendency since about 1970 has been for industrial firms to respond to growing demand by increasing capital use and labour productivity levels

rather than employment.<sup>10</sup> This tendency is particularly noticeable in manufacturing where real output and employment growth rates averaged 2.1 per cent per annum and only 0.4 per cent per annum respectively over the 1974-1987 period. In other sectors the employment outlook is also bleak. Commercial agriculture has been mechanising and shedding labour since the 1960s, the mining sector cannot be relied on to greatly expand employment, and construction employment seems fairly stagnant. Commerce and private services not driven by a dynamic goods sector of the economy are unlikely to grow rapidly and raise worker incomes much. Rising government employment, on the other hand, is often of entirely unproductive bureaucrats, and constrained by a weak state fiscal position.

Together, these employment trends have important implications. Unemployment and underemployment are likely to rise rapidly in the foreseeable future as a rapidly-growing labour force encounters a stagnant employment position in the economy. Increasing economic and social differentiation may emerge within the labour force between people in high-productivity higher-income jobs and the unemployed or underemployed. The services will be the main source of employment growth, led by trade, transport and personal services, stimulated partly by government efforts at deregulation and informal sector development, and partly by the informal sector's usual urban 'safety net' role.<sup>11</sup> Such jobs are likely to be poor and lack significant output-boosting effect on the broader economy, and the share in total employment of low-productivity, low-income casual workers and the self-employed will probably rise further.

### Mishap or Crisis?

Various causes of South Africa's economic decline since about 1974 have been discussed above. Perhaps most importantly, the advanced capitalist countries have been growing slowly since the early 1970s and closely-linked economies like South Africa have slowed down too. Compared to a sample of 18 'similar' developing countries like Turkey, Brazil and Algeria, South Africa's unimpressive growth ranking of twelfth 1950-70 fell only marginally to thirteenth 1970-85<sup>12</sup> - suggesting that the long-term local slowdown is largely externally induced. More recent cyclical vicissitudes in the world economy have forced many developing economies with structural similarities to South Africa to adjust to factors like falling raw materials prices, high interest payments on foreign debt and short-term capital outflows. Some Latin American countries for example suffered far more from these adjustments than South Africa; over the crucial 1981-1985 period, South Africa grew at around one per cent per annum, compared to disaster in countries like Argentina (-2.1 per cent per annum) and Venezuela (-1.3 per cent per annum).<sup>13</sup>

The South African economy has in fact adjusted relatively quickly to these 'external' constraints and most of its short-run weaknesses are under control. As of early 1988, inflation rates were falling, the real exchange rate of the rand had recovered somewhat from its 1984-85 slump, foreign debts were steadily being paid off (using large current account surpluses of the balance of payments), and signs of recovery were evident in some sectors. Further, state macroeconomic policy has begun turning away from the suicidal austerity policies of 1984-85, and the economy has begun making structural adaptations such that it should be less exposed to future changes in world economic conditions.

The most immediate danger is still the vulnerability of the balance of payments, but gold, uranium and coal exports will continue to provide valuable foreign exchange, and more cunning state balance of payments policy could enable the economy to benefit more from these earnings than in the recent past. This would especially be the case when the bulk of foreign debts have been paid off, reducing the necessity for large balance of payments surpluses, and inflation is seen as being under control.

To a significant extent, then, the poor economic performance of 1981-1986 can be seen as a 'mishap', as induced by an unfortunate coincidence of events which is unlikely to be repeated. But this is not the whole story. While the magnitude of the recent slump was magnified by external factors, the South African economy has been on a low-growth development path since the mid-1970s.

Evidence of overall economic recovery should also be treated with scepticism. The South African economy has endured such a severe slump recently that the increase in demand accompanying the current 'mini-boom' is raising output and employment and investment levels are partially recovering from the doldrums. However, such expansion is likely to be cut short due to the slow growth of aggregate productive capacity in the 1980s.<sup>14</sup> Extrapolating recent economic trends in South Africa, it seems unlikely that total output will grow faster than perhaps two per cent per annum over the next decade, and real incomes per capita are likely to fall steadily. Growth projections for the 1986-1990 period of 3.2 or 3.3 per cent per annum<sup>15</sup> seem quite unrealistically high.

Further, there are indications that the current political situation is having a particularly negative effect on the South African economy, on a scale not hitherto experienced. Two major political-economic connections can be hypothesised in South Africa. Firstly, political 'unrest' tends to lower investment levels and induce capital flight and balance of payments crises, leading to deflationary macroeconomic policies, and slower economic growth.<sup>16</sup> The logic seems simple: investors fear profits will be undermined by continual



political struggle, with the added danger of possible eventual expropriation or nationalization of their capital under a radical government. To this can be added pressures on foreign firms operating in South Africa due to anti-apartheid feeling in the West. Thus, real economy-wide growth rates of fixed capital stock of around 6.8 per cent per annum 1969-1974 slowed to 3.3 per cent per annum 1980-86 - a period in which the capital:output ratio rose by around two per cent per annum and is likely to increase in the future. This decline is even more noticeable in manufacturing, with a comparable annual drop from 8.3 per cent to 3.3 per cent.

These patterns have been particularly noticeable in South Africa since the 1984/85 stage of Black resistance. The capital account of the balance of payments suffered first, while real gross domestic fixed investment has fallen steadily since a peak in 1981 (halving in manufacturing by 1986), and real net domestic investment by private firms in 1985 and 1986 was negative for the first time in 50 years, though recovered slightly in 1987.<sup>17</sup>

The second political-economic connection concerns the apartheid system itself. In the early post-War period, apartheid aided aspects of economic growth in South Africa. Its fiscal costs were low and it encouraged rapid capital accumulation by ensuring a cheap unskilled labour supply for White firms. By the late 1960s this position had begun changing. The production pattern in the economy was moving towards higher-wage skill- and capital-intensive sectors which are less dependent for survival on cheap unskilled Black labour, and the labour controls they suffered prevented the dissemination of skills and hampered productivity growth.

At the same time, the recent fiscal costs of apartheid have soared in areas like defence, homelands and administration.<sup>18</sup> The net effect of these processes is that the total financial costs of apartheid are rising steadily in a period when the state can ill afford them, thus compelling it to raise taxes or loans to cover spending or reduce expenditure in other areas. This perhaps irreversible combination of falling benefits and rising costs of apartheid over an extended period of time is unique to the current phase of South African history.<sup>19</sup>

The long-term prospects of the South African economy under the present regime are also unpromising. For a developing country, the structure of the economy is not healthy - most noticeable in the weak manufacturing sector, in South Africa's appalling recent job-creation record, in a weak state financial position (affecting investment in infrastructure and parastatals), and in the relatively poor performance of employment-creating small-scale manufacturing and services over the past few years. Meanwhile, the world

economy is growing only slowly and has begun moving away from some of South Africa's raw material exports. South Africa will attempt to export manufactures but faces stiff competition from other newly industrialising countries and may be hamstrung by looming trade sanctions. Further, foreign capital and finance is increasingly suspicious of the South African situation, and South Africa will be forced to survive largely without new inflows of foreign capital. This is likely to reduce the long-run growth rate by at least two per cent per annum, especially if accompanied by diminished access to foreign technology and skills.<sup>20</sup>

In short, neither of the 'mishap or crisis' positions quoted initially seems correct. The South African economy is in a bad way, suffering what may be termed a secular recession, and prospects for sustained economic recovery are not good. This is more than a temporary or cyclical mishap. Is it in economic crisis? Where crisis is defined simply as "long run economic decline"<sup>21</sup> the answer is clearly yes. It implies however that most of the world economy has been in crisis for fifteen years and the usefulness and local specificity of such a definition seems minimal.

By contrast, Wright suggests economic crisis "implies that in order for accumulation to continue some sort of restructuring of the accumulation process is necessary".<sup>22</sup> While marginal forms of economic restructuring are taking place all the time, this does not yet seem appropriate for South Africa. The economic basis of white rule, while weakening slowly, will certainly be able to provide comfortable incomes for most whites and support a huge military-apartheid apparatus for a long time yet. The economy has certain strengths - a strong food-producing sector, valuable mineral resources, a limited dependence on oil, a fairly developed manufacturing sector, some local technological knowhow, and fair levels of local savings - which will enable it certainly to survive and grow slowly as long as effective large-scale trade sanctions are not applied.

#### Towards a Laager Economy?

The South African economy is weakening but its resilience and capacity to adjust to changed circumstances should not be underestimated. Indeed, this could be put to the test over the next few years. Under the impact of sanctions and external vulnerability, there have been moves amongst South African economic policymakers towards a 'laager economy' option: reducing economic links with the outside world and attempting to become more economically self-sufficient - and hence freer from outside political pressures.<sup>23</sup> This makes a virtue of necessity for South Africa can no longer depend on foreign capital inflows and some trade links are threatened. Instead, the local manufacturing sector will be relied on to provide the necessary machinery, capital goods and technology to keep the economy and military establish-

ment functioning, perhaps with higher parastatal spending or vigorous investment incentives to raise investment in vital manufacturing subsectors.

The laager direction would further entrench economic decline in South Africa.<sup>24</sup> Most obviously, inefficiency and clumsy government intervention in the economy would be perpetuated, raising production costs and lowering output growth rates across the economy. In some industrial sectors, capital-intensive methods of production would be further entrenched, and dependence on erratic mining revenues would remain. Corresponding to this would be low rates of formal job-creation and steadily rising unemployment in all sectors and regions of South Africa, and generally falling real incomes.

This 'backs-to-the-wall' option could have ominous political implications. Among whites, a lengthy period of economic decline, with White morale bolstered by nationalism, anti-Communist feeling and state propaganda might strengthen conservative groups and weaken the position of those who want to see an end to the system of white political supremacy. Such an economic and political environment could render progressive political organisation among blacks even more difficult than at present. In the absence of major new political initiatives however, the resilience of the South African economy could allow such a situation to be perpetuated for many years.

Finally, the longer, more torturous and economically destructive the path towards Black majority rule, the weaker the economy will be at its end, and the greater the economic constraints on any post-apartheid government which would like to attempt policies of income and wealth redistribution. The manufacturing sector will likely be diversified but inefficient and heavily subsidized, export markets will have been permanently lost, South Africa's position in the world economy will have drastically deteriorated, and savings and investment levels will be low. Perhaps most importantly, South Africa will have a huge number of poor and unemployed people, with little hope of providing them with reasonably paid work for many years. Any post-apartheid efforts at socialism may be subsumed beneath the urgent immediate need to reconstruct the economy and create jobs.

Admittedly, the rest of the world would rejoice to see apartheid ended and aid might be made available, lower levels of unproductive state spending might free funds for investment and income redistribution, and the ending of trade and investment restrictions would allow a more aggressive South African export strategy, and lower costs of capital imports. The Zimbabwean experience, however, indicates that outside assistance is not to be relied upon.<sup>25</sup> There is a danger, then, that current policies to undermine the

South African economy could have multiplied negative effects on the socio-political system that replaces apartheid.

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