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WAGES, PROFITS AND APARTHEID: 1939-60

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INTRODUCTION

This paper examines the economic history of South Africa from the Second World War to 1960 with the aim of exploring some aspects of the relationship between apartheid and capitalism from an empirical perspective. In order to keep the paper as accessible as possible, the more detailed discussions of economic trends have been relegated to footnotes. By examining the period immediately preceding the nationalist election victory and the 12 years afterwards, it is hoped that important changes and continuities can be highlighted. Trends in wages and in the share of profit are examined in some detail. The purpose of this exercise is two-fold; to present a story drawing on economic trends and stated government policy aims, and to introduce statistical analysis and simple economics into the debate about the relationship between apartheid and capitalism.

A particularly disturbing characteristic of South African political economy is the tendency to regard state economic policy as an instrument of capitalists and capitalism. Firstly, what is in the interests of capitalists is not necessarily in the interests of capitalism. Secondly, governments are often forced to act against the short-term interests of economic constituencies in order to maintain macro-economic balance. Thirdly, governments are often ignorant and ill-advised and as a result, are capable of making disasterous policy decisions. These points are touched apon in the discussion.

Even more alarming is that claims are frequently made about economic trends (particularly about the relationship between wages and profits) without due consideration to what actually happened. The aversion for dealing with statistics and simple economic relationships which characterises a great deal of (particularly leftist) analyses, should be actively combatted by interested historians. Statistical analysis can shed light on hotly contested issues in the capitalism-apartheid debate. This paper attempts a preliminary exploration of trends in wages and profits, drawing implications at various points for the relationship between apartheid and capitalism[1]. Unfortunately, as the national accounts have only been consistently estimated from 1948, the analysis of the first two post-war peak to peak cycles (1948-55 and 1955-60) is a great deal more detailed than that of the war years.

Wages and Profits Before embarking on the analysis, it is useful to outline the simple methodology used to deconstruct the relationship between wages and the profit share. South Africa's output (value added in production) can be expressed as the wage bill + an operating surplus (ie profits).

Output (Y) = wages (W) + profits (P)

Consequently the share of output going to workers, ie the wage share can be expressed as W/Y and the profit share as P/Y

$$1 = \frac{W}{Y} + \frac{P}{Y}$$

As the sum of the wage and profit shares must (by definition) equal unity, it follows that if the wage share rises, the profit share will fall (and vice versa). If we explore this further, it becomes clear that if average wages rise faster than output, then the wage share will rise. In other words, if wage increases are greater than the growth of the total 'economic pie' (ie Y) then it follows that the pie slice accrueing to capitalists (the profit share) will be eroded. These simple concepts underly the economic analysis presented in this paper[2].

The capitalism-apartheid debate The above method, when applied to South Africa, helps shed light on the question as to whether apartheid was associated with an economic environment in which the share of the economic pie going to capitalists got bigger or smaller. The 'radical' analysis of the apartheid-capitalism relation suggested that labour repression (and the migrant labour system) drove down the wage bill and thus allowed the share of profit to rise. The 'liberal' analysis on the other hand stressed that apartheid slowed down the growth of the economic pie and had a detrimental impact on profits via increased white wages - although the question as to whether this caused the profit share to rise or fall was left vague. While accepting that white wage growth was a problem for capitalists, 'radicals' maintained that the benefits of the political co-operation of white workers and the division of the working class more than outweighed any negative effects. The assumption they made was that the downward pressure on black wages more than compensated for the upward pressure on white wages exerted by apartheid policies.

Because the 'radical' hypothesis made definite claims about trends in the wage and profit shares (whereas the 'liberal' analysis focussed more on the effects on growth and structural change), the statistical analysis presented in this paper has more bearing on 'radical' beliefs.

THE PROFIT SHARE 1939-48

The advent of the 2nd World War had a highly stimulating effect on the South African economy (Robertson, 1954). The reduction of imports forced and encouraged the development of a local machinery and capital goods sector (Moll, 1987, p.3) and high demand for South African food, raw materials, machinery and munitions in the UK and the West stimulated exports and growth. According to Moll, by the end of the war, significant structural transformation had taken place and industry "was beginning to produce a variety of consumption goods and more advanced goods and machinery via automated production processes, using local raw materials and technology" (loc.cit). This is reflected in the fact that the metal products, engineering and transport equipment group which constituted 19,5% of industrial output in 1933/4 was contributing 30,4% in 1947/8 (Union Statistics, 1960).

The expansion and structural transformation had a major impact in the level of black employment in manufacturing. Between 1933/4 and 1947/8 the number of black workers in manufacturing almost trippled - growing at 8,6% per year (Moll, 1987, p.3). The increased demand for labour (and especially black labour) had positive ramifications for the growth in the wage share. The Wage Board (Report for the year 1954, UG 17-1956) estimates that in 1937, the manufacturing wage share was 48% (p.32). According to the Botha Commission into Industrial

Legislation (UG 62-1951), this had risen to 55% in 1940 and then to 63% by 1948 (ibid, p.37-38). In other words, over the war years, the share of profit was eroded by the growth of wage income.

The Botha Commission attributes a great deal of the impetus for this to the growth of black wages which rose as a percentage of average white wages from 20,1% in 1938 to 25,0% in 1948 (ibid, p.40). The narrowing of the black:white wage gap was explained in terms of a small measure of upward movement of blacks through the occupational structure and as a result of the narrowing of the gap between the wages of workers in different classes of skill (ibid, p.47).

The narrowing of the gap between skilled and unskilled wages was accorded great significance by the Commission. As can be seen from Table One, the wage gap between unskilled and skilled workers narrowed significantly in all regions of the country.

Table One: Unskilled Black Wages as % of White Artisan Wages

Region	1938	1950
Cape Peninsula	13,3	22,0
Durban	7,8	13,7
Witwatersrand	6,7	13,7

Source: UG 62-1951, pp.47-49

The Commission pointed out that the trend was consistent with world wide trends but that in South Africa, the gap was still excessively large. The Board of Trade and Industries is quoted as saying that in the Western World, unskilled wages are seldom less than 30% and seldom more than 50% of skilled wages (p.47).

The upward pressure on black wages had its roots in the shortages of skilled and semi-skilled labour during the war. Tight labour market conditions coupled with war-time emergency regulations, allowed employers to engage (and train) black workers for jobs normally occupied by whites. The stimulus to industry presented by the war, further encouraged the employment of blacks as more semi-skilled jobs became available due to automation and the re-organisation of the labour process. According to the Botha Commission:

> "The mechanisation of industry created a large number of classes of work for which a great measure of skill is not necessary and in which the repetitive character of the work, makes the employment of natives, in view of their natural characteristics, more suitable than Europeans... A further reason (is that) this class of labour was the only one readily available during the war years" (ibid, p.160).

According to the Department of Labour's report for 1946 (UG 62-1948), statistics for industries investigated by the Wage Board between 1937 and 1946 show that semi-skilled jobs represent 18,3% of all jobs and that only 35,9% of these jobs were European (ibid, p.47). The Report observed that "Non-Europeans are efficient semi-skilled workers, being excedingly suitable for the repetitive nature of operative work; Natives in particular are fond of minding machines and with the necessary experience, become excellent machine operators" (loc.cit). The progression from unskilled to semi-skilled and eventually to skilled work was seen by the Department as "natural" and the report predicted that "non-Europeans will in increasing numbers become skilled workers in the future" (loc.cit).

This process was of course resisted by the white trade unions. In its submission to the Botha Commission, the Board of Trade and Industries complained that

> "the reclassification of labour categories through the process of negotiation between labour unions and employer's organisations has been slow and uncertain. The bargaining powers of the respective parties rather than the requirements of developing a manufacturing industry in the Union have been the determining factor" (ibid, p.63).

Nevertheless, the extent to which skills were diluted and the labour process re-organised represented according to Webster, 'a serious set-back for the organized working class' (1985, p.56). Employers took advantage of the situation to link the employment of emergency workers with a more radical restructuring of the labour process through mechanisation and deskilling (ibid, p.57). This eroded the strength of white skilled workers and increased the bargaining position of those black workers moving into operative and semi-skilled jobs.

The State played an active role in facilitating the dilution of skilled jobs into semi-skilled jobs where possible. This occured not only in metal and engineering, but also in the consumer sector[3]. In addition, the State, through the activities of the Wage Board, also made a contribution to the raising of the level of unskilled black wages. In the Report of the Wage Board for 1940, it was stated that

> "in regard to the duty of reporting on classes of employees entitled to wages on a civilised basis, this has been interpreted by the Board somewhat liberally it must be admitted, as a direction that wages are to be recommended on a civilised basis for so many classes of employees as circumstances may permit" (UG -45-1941, p.31).

The Report goes on to stress that the Board was particularly concerned with unskilled wages because "evidence is accumulating that in general the wages of unskilled workers and often the semi-skilled also are insufficient for the maintenance of a healthy existence" (loc.cit).

The 1940 Report is remarkable in several respects. Firstly, it adopts the case of the unskilled worker with overt enthuisiasm and moralism. A substantial section of the report describes and endorses the Australian concept of a "living wage" for unskilled workers. There is an explicit commitment to intervening in the economy on the behalf of the economically powerless black worker. The Report criticises employers who made wage increases only in skilled categories simply because skilled workers were better organised into trade unions. However, with no small measure of smug satisfaction the Board adds "as a result of representations by the Department however, matters were rectified in the majority of cases" (ibid, p.37). This paternalist interventionist stance, persisted right through the war years.

Secondly, the report stands in sharp contrast with that of the previous year which stressed that the standard of living of the worker was only one factor in making a wage determination - the other being the ability of employers to pay wage increases (UG 36-1940). The 1940 Report by contrast, stated the firm's ability to pay is "relatively less important where the wages of the lower paid workers are concerned" (ibid, p.31). There is a clear committment to improving the level of unskilled wages even if it meant that marginal firms would go out of business.

In other words, in its general policy, the Department of Labour and the Wage Board acted to protect (and even strengthen) the bargaining power of black unskilled labour and to facilitate the upward penetration of black labour through the occupational structure. Through minimum wage legislation and cost-of-living allowances (which were regressive and favoured lower incomes[4]) the Wage Board contributed to the narrowing of the black:white wage differential (Spandau, 1972, p.380).

The immediate question which presents itself is why average white wages should not have risen as fast, particularly given the serious shortage of skilled and artisanal labour. Firstly, the bargaining power of white labour was not as strong as it might have been under the circumstances. War measure no.9 of 1942 (which lasted until the cessation of hostilities in 1945) prohibited strike action by white workers. Furthermore, wages were frozen in many strategic industries. While similar legislation affected black industrial action (war measure no.145 of 1942), unskilled black workers at least had some protection from the paternalistic Wage Board and Department of Labour.

Secondly, from 1941 to 1945 the government Controller of Industrial Manpower was empowered to "control" strategic industries so as to "yield the best results in the interests of the defence of the Union (and maintain) supplies and services essential to the life of the community" (Dept of Labour Report for 1941 - no UG number, p.4). This reduced the bargaining power of certain artisans as the main object of controlling industries (mainly engineering, building, stevedoring, boot and shoe manufacture) was to prevent the poaching of skilled labour by private industry[5].

The Controller of Industrial Manpower also contributed to the dilution of skilled jobs. According to Spandau;

> "The bulk of the Controller's work lay in the engineering industry where skilled wages were frozen in November, 1941. At the same time, there was considerable work dilution in the engineering and munitions industries, whereby skilled artisans were replaced by a number of operatives whom they directed and whose work was of a simple nature - usually one operation. Careful factory lay-outs and single purpose lathes helped achieve such dilution. As the dilutees were normally non-whites, their productivity was considerably increased" (1972, p.381).

Spandau concludes that "in the case of the dominant engineering sector the evidence suggests that the Wage Board's actions were of secondary importance in bringing about changes in the wage structure, compared with the direct-control measures exercised by the Controller of Industrial Manpower" (loc.cit).

Thirdly, the Factories, Machinery and Building Works Act of 1941 limited the number of hours that skilled workers could work overtime in response to skilled labour shortages. The working week was reduced from 54 to 46 hours and the maximum (ie including overtime) from 60 to 54 hours (Dept of Labour Report for 1941, p.5). This prevented white skilled workers from cashing in on the labour scarcity by working longer hours.

Fourthly, the use of "emergency" workers in war-time manufacturing reduced the average white wage because most of these workers were female (Dept of Labour Report for 1941, p.5).

In short, during the war, black unskilled and semi-skilled labour was better able to make real gains than white skilled labour. Both the forces of economic demand and institutional factors played a role in developments which resulted not only in the narrowing of racial income differentials, but also in the rise of the wage share at the cost of the profit share. However, in the period after the war, particularly from 1948, the balance between workers and capitalists shifted in favour of capital, and the balance between white and black workers shifted in favour of the former. White skilled workers experienced real wage growth whereas the real income of black workers declined sufficiently to ensure a rise in the profit share. As the abrupt reversal in the relative fortunes of black and white workers coincided with the coming to power of the Nationalists, the period 1948-55 is worth examining in some detail.

THE PROFIT SHARE: 1948-55

Between 1948 and 1955, the economy grew at 4,6% p.a. and manufacturing grew at 7,7% p.a. Rapid growth however soon came up against the constraints of skill and materials bottlenecks and demand-induced inflation plagued the economy as a result. The main beneficiaries of the economic climate were white skilled workers and capitalists. This can be seen Table Two which provides statistics on variables central to understanding the relationship between trends in wages, output and the profit share.

Table Two: Trends in SA Manufacturing: 1948-55

Average annual compound growth rate	White	Coloured & Indian	Black	Total
Wages	1,9	-1,3	-2,1	-0,4
Available Output				0,0
Wage Share				-0,4
Profit Share				0,7

Sources: Published and unpublished information from the Central Statistical Services and the South African Reserve Bank. More detail is available on request. See footnote two for the measure of available output and wages.

The above table shows that the share of available output going to capitalists (ie the profit share) increased over the period 1948-55 and conversely, the share of output going to workers (ie the wage share) decreased. These trends are in sharp contrast to those during the war years. Furthermore, they are also in sharp contrast to trends in the rest of the post-war period. I have shown elsewhere that for the period from 1955, with the exception of 1975-81, the wage share rose at the cost of the profit share (Nattrass, 1989, 1990). 1948-55 is thus a particularly interesting period.

Between 1948 and 1955, the wage share fell because total average wages grew slower than available output (ie the total economic pie to be divided between workers and capitalists). However, the relative fortunes of the various racial categories varied enormously. White workers wages increased faster than the available output. In other words, if all output was produced by white workers, the wage share would have risen - to the detriment of the profit share. However, black and coloured & Indian wages actually fell over the period to such an extent that the rise in white wages was neutralised. Total average wages grew slower than available output and the profit share rose.

In short, for the period 1948-55, capitalists and white workers benefitted at the expense of black, coloured and Indian workers. The 'radical' hypothesis that apartheid facilitated rising white wages and rising profitability via the increased exploitation of the black working class, is thus supported for this period. That these trends are effectively a reversal of those during the war under the United Party government, appears to strengthen the case even further. Furthermore, the idea that apartheid policy from 1948 represented a solution to an 'organic crisis' in the 1940s (Saul and Gelb, 1981) in so far as it suppressed the black working class and re-laid the conditions for succesfull accumulation, is apparantly bolstered by these trends.

But how exactly did this dramatic turnaround take place? What were the factors which reversed the relative fortunes of black and white workers? While some trends would have been affected by shifts in government policy, they also had their roots in economic structural changes taking place and had little to do with institutional or policy changes from 1948.

For example, the re-absorbtion of white servicemen into the economy reduced the pressure on employees to engage blacks in semi-skilled and skilled work. This would have had a downward effect on the level of black wages. Also, the movement of women out of the labour market as the war ended, no doubt played a role in increasing the average white wage in industry.

Even the attitude of the Wage Board, which by 1948 was decidedly less in favour of increasing black unskilled wages, had changed prior to the Nationalist Party coming to power. For example, in the Dept of Labour Report for 1946 (UG 62-1948) the Wage Board stressed that

> "It will be to the benefit of all concerned if representatives of non-European workers, mostly labourers, were to realise an appreciate that with the present economic development of the country, a general minimum rate of 3 pounds a week for unskilled work, which is usually proposed by these representatives, would be fatal to the general interests of the country, including those of labourers" (ibid, p.32).

This attitude permeated Wage and Labour Board reports from 1946. The shift may have occurred earlier but given the disruption to government report production during the war, government attitudes from 1942 to 1945 are an open question.

In the 1948 Report (UG 50-1950) the Wage Board argued that the continued call for 3 pounds a week "can only be regarded as revolutionary" (ibid, p.33). This they argued, despite evidence presented by the Report of the non-European Bus Service Commission (1946) which argued that a black Johannesburg family required 12 pounds, 18 shillings and 6 pence week, which at current wages implied a shortfall of 5 pounds 15 shillings and 11 pence a week (as discussed by the Wage Board in the 1948 Report, p.33).

Although the Wage Board's concern to support the level of black unskilled wages had waned soon after the end of the war, the racist approach of the nationalist government almost certainly strengthened that tendency. By 1948 the Wage Board had shifted well away from its stance in the 1940 Report. The moralistic argument that unskilled wages be increased even if marginal firms could not afford it, had been completely abandoned. Rather than stressing the needs of workers, the Board argued in its Report for 1948,

> "the emphasis should ... rest on improvement of the standard of efficiency and output of the lower paid worker, it being economically unsound that he be remunerated at a level above his value. If the unskilled worker strives to better his output of work and reaches the stage where more reliance can be placed on him by his employer, he will presumably be in a position to command a higher wage" (ibid, p.50).

The paternalistic approach had shifted to one blaming the worker for the existing level of wages;

> "The tendency of unskilled workers, more particularly natives, to migrate from one form of employment to another, rather than remain in service and improve their efficiency and knowledge by specialisation, is one of the main features militating against the general advancement of wages of unskilled workers of this race" (ibid, p.33-34).

By 1954, the Board was arguing that the tendency to wage equality was only desirable if it increased productivity and did not reduce the incentive to aquire skills (UG 46-1954). Thus efforts to improve the postion of the unskilled worker will always be "strictly circumscribed and limited by economic factors" (ibid, p.29). According to the Board, "the process of improvement will have to be gradual in order to correspond with the increased contribution of the unskilled worker to production, and with the ability of individual industries to pay increased rates of remuneration" (loc.cit). Between 1950 and 1956, the Board made less than an average of one minimum wage determination a year, made no determination limited to unskilled workers in specified industries and there were hardly any improvements in the prescribed wage rate minima (Pursell, 1971, p.40).

The shift away from positive intervention on the behalf of the unskilled black worker had a very real impact on the level of black wages. Inflation (which averaged 5,5% per annum) between 1948 and 1955[6], bit hard into black living standards. However, it is important to bear in mind that the depression of black wages was primarily the result of non-intervention rather than active and malevolent state strategy. To a large extent, the market did the government's dirty work for it.

The exception is of course the continued suppression of black trade unions. However, the form it took over the period 1948-55 was simply the extension of repressive measures promulgated during the war[7]. Restrictions on the right of black workers to organise and strike (only marginally eased in 1953) certainly contributed to the erosion of the economic muscle of black workers. However, adverse labour market conditions were more telling. It is doubtfull whether unrestricted black unions would have been able to prevent the downward slide of black wages.

As urbanisation (which had escalated noticeably during the war) continued apace despite government rhetoric, the labour market for unskilled black labour was relatively depressed between 1948 and 1955. As Hindson has shown, up until the late 1950s apartheid labour controls were only partially effective (1987, p.65). This implies that the black urban working class was not afforded protection from competition from their rapidly urbanising unskilled rural compatriots. The influx of unskilled labour to urban areas (technically against nationalist stated policy) coupled with the restrictions on black trade union organisation had extremely negative consequences for black bargaining power.

It is important to bear in mind that the performance of the economy over the period also had an impact on the rate of growth of wages and profits and on the policy of the Wage Board. Deflationary policies in response to balance of payments disequilibria, and rising import and material prices placed great strain on manufacturing profitability. Faced with a stronger white trade union movement than had existed during the war, firms concentrated on reducing costs by focussing on relatively powerless black labour - made more powerless by the slower rate of growth which reduced the pressure on the black semi-skilled and unskilled labour markets. That the Wage Board acquiesced in this is symptomatic of the overall policy objective of fostering economic growth under conditions of relatively stable prices (Spandau, 1972, p.383).

The role of government economic policy and it's effects on capitalist profitability and growth is a very under-researched area. Whereas government intervention in the labour market can more easily be explained in terms of political pressure (from white workers and capitalists), the relationships between class interests, economic policy and outcome are opaque and indeterminate in the broadly defined economic policy sphere. In many important respects, the structural problems facing the economy which manifested themselves in high inflation and balance of payments disequilibria were those which would have faced any government and would probably have been dealt with in pretty much the same way. Likewise, the limited instruments available to the state in exercising monetary policy would have confounded any government attempting to combat inflation by restricting credit. However, there are aspects of nationalist policy over the period which are of particular interest to the questions addressed in this paper.

Firstly, the government had a clear preference for deflating the economy in order to cope with demand induced inflation[8]. The alternative of allowing the skills shortage (an important constraint on growth[9]) to be alleviated by facilitating upward mobility and training of black workers was explicitly rejected. The corollary of this was that the potential of an expanding black market as an impetus for growth was also not developed. This meant that markets for domestic capitalists had to be secured by restricting foreign competition. The Viljoen Commission in justifying a pro-protection stance, observed the following:

> "It was maintained by the representatives of organised industry that entrepreneurs would not be prepared to invest capital to an extent sufficient to ensure the renewed rapid development of the country's economy unless they were assured of a sufficient share of the limited South African market so that production could be planned and unit costs reduced to a level comparable with that of overseas manufacturers with much larger home markets" (UG 36/1958, p.6).

The option of protecting the domestic market carried with it positive and negative consequences. According to Zarenda (1977, p.110) import substitution was the major stimulus to growth up until 1957. However, protection also encouraged inefficiency and high production cost structures in manufacturing.

Secondly, the government's naive and suspicious attitude to capital inflow[10] coupled with the uncertainty generated by statements relating to labour policy, militated against the rapid growth of domestic and foreign investment. The weak balance of payments position was further exacerbated by government's reluctance to devalue the South African pound. According to Moll (1987), South Africa, for reasons relating to national pride, chose to maintain parity with the UK pound - a decision which resulted in an over-valued exchange rate. This cheapened imports and limited structural change towards export production.

This raises an interesting point about the distinction between the interests of capitalists and the development of capitalism. Government policy may have been in the short term interests of individual capitalists (who could afford cheap imported inputs while languishing behind tariff walls) but in so far as it dulled the competitive pressures necessary for healthy structural transformation, the long term interests of capitalism were harmed. The distinction between questions concerning the relationship between apartheid and capitalists and between apartheid and capitalism, often fails to be made clearly and is responsible for a great deal of the communication breakdown between marxist scholars and classical economists.

For example, when 'liberal' economists point out that apartheid slowed down the process of structural transformation, they are making a point about the relationship between apartheid and capitalism. When 'radicals' show how state policies responded to the particular needs of certain fractions of capital, they are making a point about the relationship between apartheid and capitalists. Both positions can be simultaneously correct. Both Marx and neo-classical economists accept that what may be in the interests of individual capitalists can actually undermine the dynamism of the capitalist system itself.

THE PROFIT SHARE: 1955-60

Growth during 1955-60 was slower and more stable than the preceding period. The main impetus for the boom part of the cycle (1956/7) came from the Suez crisis which boosted demand for South Afican wool, coal and uranium. Rapid growth was however, shortlived as the old problem of balance of payments disequilibria re-asserted itself. Import controls and restrictive monetary and fiscal policy were once again introduced.

In sharp contrast to the trends in the previous period, the profit share was eroded by the growth in wage income. As can be seen in Table Four, white and black wages rose faster than the output available for distribution between wages and profits. This time, the rapid growth of white wages was not compensated for by slower growing or declining black wages.

Table Three: Trends in SA Manufacturing: 1955-60

Average annual compound growth rate	White	Coloured & Indian	Black	Total
Wages	5,3	3,5	3,9	4,2
Available Output				3,8
Wage Share				0,4
Profit Share				-0,7

Sources: See Table Two

Although black and white wage growth contributed to the decline in the profit share, the significant strength of white workers can be seen in the further widening of the black:white wage gap. The use of black workers in operative and semi-skilled tasks where possible, probably underlies the rise in black wages. Manufacturing industry was becoming increasingly reliant on automated process involving the use of stable semi-skilled labour rather than undifferentiated unskilled labour. This, no doubt, led to firms competing for semi-skilled workers with urban residential rights and hence to the rise in wages.

At the same time, there is some evidence that Wage Board policy was from 1957, once again becoming more cognisant of the need to increase black earnings (Pursell, 1968). Pursell found that in the manufacturing sector, "most determinations increased Bantu real earnings, the actual increase ranging from slight improvements to substantial increases" (ibid, p.90). This finding was mirrored for unskilled labour in general[11].

The rise in white wages again, can be traced to the bargaining power of white skilled workers. In the context of a scarcity of skilled labour, keen competition between employers places exceptional upward pressure on skilled wages - despite the often poorly qualified character of artisan labour in South Africa[12].

Interestingly enough, the Department of Labour during the mid 1950s started making broad hints to the effect that increases in white wages well in excess of productivity was becoming a serious economic problem (see Report for the year 1954, ie UG 17/1956 and for 1955, ie UG 21/1957). However, despite the Department of Labour's lobbying for the introduction of production incentives and improved training facilities, not much inroad was made into the power of white workers. Rather, job reservation (in terms of Section 77 of the 1956 Industrial Conciliation Act) was added to the armoury of the white working class.

THE RATE OF PROFIT

We have seen that between 1948 and 1955, the share of profit going to capitalists actually increased because the decline in black wages more than compensated for the increase in white wages. However, not all was well as far as capitalist development was concerned. Skill shortages, import and price controls coupled with a crisis in investor confidence were clearly resented by capitalists. Furthermore, the effects that this had in the form of increased costs had an extremely negative impact on manufacturing profitability.

At this point it is necessary to move beyond our initial analysis of the profit share and extend it to that of the rate of profit. The rate of profit (ie the rate of return on capital invested) can be expressed as the product of the profit share and the output:capital ratio.

$$\frac{P}{K} = \frac{P}{Y} \cdot \frac{Y}{K}$$

In other words, trends in the profit share are only one aspect of the measure of profitability. Trends in the productivity of the capital stock (ie Y/K, the output:capital ratio) are also of great importance. Between 1948 and 1955, the output:capital ratio in South African manufacturing declined by 2,5% p.a (Nattrass, 1990). This drop in the productivity of capital was so great as to neutralise the rise in the profit share. As a result, the rate of profit declined by 1,8% p.a. over the period (loc.cit).

Why did the output:capital ratio decline? Preliminary statistical investigation indicates that the major factor underlying this adverse trend was the rapid rise in input prices relative to output prices. In other words, the rise in the cost of materials was not balanced by a corresponding rise in the price capitalists could get for their products on the market. Capitalists were unable to pass on their cost increases to the consumer and hence their profits were squeezed.

This leads us to two further questions; why did input costs rise, and why could capitalists not pass on their increased costs? In answer to the first question, the import controls[13] (which reduced the supply of available imported inputs) and the devaluation (which increased the price of imports) no doubt were a major contributing factor. Likewise, import substitution policy protected some industries but negatively affected those relient on inputs from protected industries. In answer to the second question, the price controls[14] instigated by the authorities at several points during the period would have served to prevent capitalists from fuelling inflation through price increases.

In this respect, inflation and government policy had a detrimental impact on both black workers and capitalists. Inflation reduced the real cost of black labour (which was good for the profit share) but it (in conjuncture with policies to control prices and protect the balance of payments) had a detrimental effect on the output:capital ratio and hence also on the rate of profit. To the extent that government attitudes to foreign capital exacerbated the balance of payments problems and to the extent that the government chose to deflate the economy rather than allowing the skills shortage to be absorbed by black labour, one can conclude that the interests of capitalists were ambiguously served by apartheid economic policy.

The Rate of Profit: 1955-60 Over the period 1948-55, we saw that the rate of profit fell (by 1,8% p.a.), despite positive trends in the profit share. This was largely due to adverse movements in relative prices. For the period 1955-60, the profit rate declined even faster (by 2% p.a.) although for different reasons as the input cost squeeze had abated relative to the earlier period. Between 1955 and 1960 the erosion of the profit share, declines in the productivity of capital and adverse movements in relative prices all contributed equally to the decline in profitability.

Most of the influences on the rate of profit discussed above for the 1948-55 period were present (although to different degrees) in the 1955-60 period. Import and price controls had lessened and the bargaining power of white workers had increased. Nevertheless, despite the increase in the white:black wage gap, black workers were able to erode the share of profit with the wage increases they secured.

WHAT ABOUT MINING AND THE REST OF THE ECONOMY?

At this point the following objection could be raised, ie that I have limited my analysis to the manufacturing sector when mining is just as crucial. Indeed, as some maintain, the main point of apartheid from 1948 was to ensure an adequate supply of cheap migrant labour to the mines (and to a lesser extent to industry). Those who stress that the main benefit of apartheid to capitalists was via the maintenance of the migrant labour system, would clearly like to see an analysis which includes the mining sector - South Africa's biggest user of migrant labour.

The relationship between mining and manufacturing is of course complex, being simultaneously competitive (eg for labour), complementary (there are strong foreward and backward linkages between the sectors[15]) and conflictual (eg over the pricing of inputs from one sector to another). For this reason, theories which model the South African political economy in terms of competing fractions of capital, often tend to misrepresent economic realities. Nevertheless, as a rough indication of how mining capitalist fared, a preliminary sketch of central trends in wages and the profit share in the mining industry between 1948 and 1960 is provided below.

Table Four: Trends in SA Mining: 1948-60

	1948-1955			1955-1960		
Average annual compound growth rate	White	Black	Total	White	Black	Total
Wages	1,2	-1,3	1,3	3,0	1,8	0,9
Available Output			3,1			4,1
Wage Share			-1,8			-3,2
Profit Share			3,3			4,1

Sources: See Table Two

As with the manufacturing sector, black wages declined in real terms over the period 1948-55. White wages increased, and as they constitute such a large portion of the total wage bill, so did total average wages. Nevertheless, as the output available for distribution between wages and profits increased faster than the growth of average wages, the wage share fell and the profit share rose.

However, as pointed out above, trends in the share of profit are only one side of the story - the other important measure being the rate of profit. Again, just as occurred in the manufacturing sector, adverse trends in the output:capital ratio worked against capitalist profitability between 1948 and 1955. The high rate of growth in capital investment (due to the expansion of the OFS gold fields) coupled with shortages of labour resulted in a decline in the productivity of capital such that the rate of profit remained constant over the period[16]. In other words, the mining sector fared better than the manufacturing sector between 1948 and 1955, but again, the performance of its profit rate was far from scintilating.

However, between 1955 and 1960, trends in the output:capital ratio and in the profit share were favourable to mining capital. As shown in the table above, available output grew faster than both black and white wages to the extent that the profit share grew at 4,1% per annum. More importantly, the output:capital ratio increased at 2,9 % per annum primarily because the vast investment made in the earlier period had started to pay dividends. The rate of profit in mining thus grew at a stunning 7,2% per annum. The contrast between the growth of mining and manufacturing profitability in the period 1955-60 is thus marked indeed.

This raises the interesting question as to whether the 'balance' between the performance of the mining and manufacturing sectors was such that 'overall' the South African economy showed rising profitability. As can be seen in Table Five, this is not the case.

Table Five: Comparative Average Annual Profit Rates

Period	Manufacturing	Mining	'Core' Sector
1945-55	-1,8%	0,0%	-2,7%
1955-60	-2,0%	7,2%	-0,6%

Source: See Table Two. NB: The 'Core' sector comprises mining and quarrying, manufacturing, construction, electricity gas and water, and commerce catering and accommodation.

Table Five shows the comparative profitability growth performance of the manufacturing, mining and 'core' sectors of the economy. The core sector is the largest meaningful conglomeration of sectors as far as measuring profitability is concerned[17]. It comprises the following sectors: mining and quarrying, manufacturing, construction, electricity gas and water, and commerce catering and accommodation. In 1955 the core sector contributed 52% of total output in the economy (mining and manufacturing together comprised only 32%). The core sector can be regarded as broadly representative of the dynamic capitalist sectors of the economy.

The above table indicates that overall profitability was falling in both periods after 1948, although more rapidly in the earlier period. To an important extent, the profitability of the mining sector compensated for the decline in the rate of profit in manufacturing. However, it was not enough to prevent the core rate of profit from declining - albeit at the slow rate of 0,6% p.a.

CONCLUSION

This paper raises more questions than it answers. However, it also makes a couple of substantive observations. The first is that economic statistical analysis can shed light on what the relationship between wages and profits actually was in the early apartheid era. In short, it was found that although the decline in black wages compensated for the increase in white wages between 1948 and 1955, the rate of profit declined in manufacturing. Between 1955 and 1960, the rate of profit declined even faster as black wage growth contributed to, rather than compensated for, the growth in white wages. Some data on the mining industry and the 'core' sector of the economy was also provided. Despite the cushioning effect of rising mining profitability during 1955-60, it was found that the general trend in profitability in the capitalist sector was downwards. It is thus mistaken to argue that the profit rate rose between 1948-55. However, for the period 1948-55, the figures do support the limited claim that the decline in black wages compensated for the increase in white wages such that the profit share rose.

The second substantive observation concerns the role of government economic policy. So far, the debate about the relationship between capitalism and apartheid has been dominated by a focus on government labour policy and the (assumed) relationship this has with profitability. However, capitalists are affected by a wide range of government policy on the economy - especially monetary and fiscal policy. It is thus possible that government labour policy (as in the period 1948-55) was in the narrowly defined short term interests of capitalists (in the sense that the wage share fell) but that government macro-economic policy (such as excessive deflation and misguided exchange rate policies) worked against capitalist profitability. Untangling what exactly the overall effect of government economic policy was, would be practically impossible. The point is simply that unqualified statements about government policy being good or bad for capitalists is bad theory and should be avoided. If we are to progress at all in our understanding of the historical relationship between apartheid and capitalism, a great deal more empirical work and a lot less assumption about economic trends is needed.

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NOTES

1 However, it is important to bear in mind what this statistical analysis can not resolve. There are simply too many factors (measureable and unmeasurable) at work to be able to come up with the 'answer' to the question of the relationship between capitalism and apartheid. All one can conclude from the statistics is whether they are consistent or not with theoretical interpretations which have clear implications for the distribution of wages and profits. On a minimalist level, the statistics limit the kinds of claims that economic historians can make; for instance, if the statistics show a declining profit share, one cannot claim that apartheid caused it to rise. On another level, by examining in more detail why the wage gap narrowed in the war years and then widened between 1948 and 1950, more information can be gained to inform analyses of the dynamics of South African capitalism over the period.

2 1) The rate of growth of output available for distribution between wages and profits is approximated as the rate of growth of productivity adjusted for relative input-ouput prices.
2) The rate of growth of wages is approximated as the rate of growth of product wages - ie current wages deflated by the production price index so as to get a more accurate measure of the cost to capitalists of employing labour.
For a discussion of sources and data manipulations, see the footnotes to Nattrass, 1989, pp.76-9.

3 For example, the Wage Board investigated the Baking Industry in 1938 recommended the introduction of semi-skilled grades for black workers. According to the Botha Commission "The adoption of this recommendation resulted in a dilution of labour ... that is, the work of a baker was divided between European bakers and non-European bakers assistants, the latter doing the less responsible work. In this way, less bakers were employed" (ibid, p.159). A witness investigated by the Commision complained that in the Baking Industry, the result has been that "workers who are semi-skilled are really doing journeyman's work, although they are paid a lower rate" (loc.cit).

4 For example, according to War Measure No.38 of 1942, the cost of living allowance was
(1) 3s. per week if the ordinary weekly remuneration exceded 20s. but did not exceed 40s., and
(2) 7s. 6d. if the ordinary weekly remuneration exceeded 80s. (with not upper limit at all) (quoted in Spandau, 1972, p.380). As Spandau argues, the cost-of-living allowances were "still sufficiently regressive to bring about a noticeable equalisation in the racial distribution of incomes" (loc.cit). Spandau argues that War Measures Nos 69 and 80 of 1945 were still more regressive (loc.cit).

5 From 1941-5, the Controller of Industrial Manpower had far-reaching powers which included declaring industries as controlled, prohibiting the engagement, resignation or discharge without his prior consent, in a controlled industry, of any specified employee or class of employee and regulating wages subject to industrial agreements (Official Year Book, no.29, 1956/7, p.859).

6 Inflation was, as minister Havenga pointed out, largely the result of a legacy of war-related shortages and "the unprecedented development in the field of both mining and secondary industry, which multiplied the demand for labour goods and services without making any immediate contribution to the volume of goods available for consumption"

(Hansard, Budget Speech, vol.84, 1954, p.2615). However, the state was also to a large extent responsible for fuelling these pressures. In 1952 and 1953 the government had embarked on heavy infrastructural and Public Corporation based investment projects. 1952 saw the launch of SASOL (South African Coal Oil and Gas Corporation) the expansion of ISCOR and the rise in Gross Domestic Investment in 1953 can be attributed to state sponsored projects such as South African Railways and Harbours (SAR+H), Escom (Electicity Supply Commission), SASOL, FOSCOR etc (SARBQB, March 1954, Du Plessis 1963, p.xiv-xvii). Furthermore, increased levels of government spending on improved social services (for poor whites) and benefits and defence expenditure associated with the Korean war (SARB, 1971, p.54) also contributed to inflationary pressures.

These demand side pressures were however, exacerbated by the extension of bank credit to the private sector which increased by 32% between 1947 and 1948. This gave further inflationary impetus to the economy despite the price controls instigated in the early post-war period. Between 1950 and 1954, bank credit to the private sector jumped from R470,7 million to R578,3 million, inspite of the Reserve Bank's ineffectual pleading to restrict credit for the purposes of financing consumer credit, speculative transactions or the provision of fixed capital for less productive purposes (SARB, 1971, p.55).

7 During the war years, both white and black workers were denied the right to strike. Whites were restricted by War Measure no.145 of 1942 and blacks by War Measure no.145 of 1942. Whereas the restrictions against whites were withdrawn in 1947 (UG 38/1949), those against blacks were extended by the War Measures Further Continuation Act of 1948 and again in 1950 (UG 71/1951) until the machinery created by the Native labour (Settlement of Disputes) Act of 1953 came into force.

8 The 1949 budget introduced severe austerity measures in order to deflate the economy so as to reduce the demand for imports and protect the balance of payments. Minister Havenga argued: "we are no longer living in a lotus eating land. It will be our task in the years to come to pay for our high standard of living in recent years. The sooner we settle the account the sooner will our development go ahead" (Hansard, vol.66, 1949, pp.21-22). The drastic cuts introduced contributed by the SARB's own admission, to the downswing that year (see SARBQB, no.15, March 1950). It was only after the South African pound was devalued that the economy was able to pick up again.

Government deflationary policies ended the boom in 1953 as well. Government spending was cut in the 1952/53 Budget which was geared primarily at attacking the "darkening shadow of inflation" (Havenga in Hansard, vol.78, 1952, p.3406). Import controls were also instigated to protect the BOPs. The slowdown of 1952/53 has been attributed largely to these attempts to curb inflation (J. Nattrass, 1988, p.25) but world-wide deflation also played a role in reducing the demand for South Africa's exports and the availability of foreign investment.

Similarly, in the light of the BOP difficulties coupled with "an acute labour shortage and a gradually increasing price structure" (SARBQB, March 1956) monetary measures (such as higher interest rates and requests to banks to restrict credit) and fiscal measures (such as increased levels of taxation) were resorted to which pulled the economy down from its 1955 peak.

9 Shortages of skilled labour plagued the economy throughout the period. Although immigration continued on a considerabe scale, "it effected an improvement in the number of employees only in certain industries such as ... the building industry" (Commerce and Industry, April, 1949. p.387). These shortages, particularly those in the mining industry

have been cited as a further reason for the slowdown. The fact that the gold output of already existing mines fell after the OFS mines came on-line at the end of 1951 and the Western Transvaal mines in 1952, "reflects the combined shortage of labour on the mines" (SARBQB, March 1953). This pattern continued into 1953 (SARBQB, March 1954) but by late 1954, the shortage had been resolved (SARBQB, March 1955).

10 Despite the weakness of the current account and the concommitant need for capital inflow, the government manifested a bearish attitude to foreign investment. In March 1948, steps were taken to restrict transfers of capital from the rest of the Sterling Area to SA. The inflow of capital was distrusted for reasons other than inflation. According to the new minister of finance, (Mnr Havenga) the "chasing to and fro of refugee capital" was in part to blame for SA's dificulties because "when it comes it creates exagerated expectations and when it takes flight, it leaves in the lurch those who relied upon it" (Budget Speech, Hansard, vol.66, 1949, p.2138). This attitude was entirely consistent with the anti-foreigner, anti-foreign investment, economic nationalist position of the NP in its early years.

The inflow of capital declined during 1948 and 1949, probably due in large part to the governments anti-"refugee capital" policy and indeed in response to the election of the HNP in 1948. The anti-capitalist, anti-english rhetoric of Malan resulted in a crisis in confidence in the business community after his election. The HNP's suspicion of foreign capital and foreign owned business enterprises, coupled with a fairly isolationist economic stance, fuelled the problem.

11 According to Pursell;

> "The most conspicuous feature of the determinations for unskilled work made between 1958-60 was the number of trades where substantial increases in real earning occurred as a result of the Board's prescribed minima. For example, on the Witwatersrand labourers' average real incomes were improved by 20.0 per cent or more in seven trades, by 10.0 to 19.9 per cent in three trades, and by 5.0 per cent or less in the remaining six trades" (ibid., p.92).

12 The Department of Labour writes

> "Another disquieting feature of the present position is that in a world of increasing technical complexity, the incentive for employees to qualify technically is not very strong when employers are desparate for workers, unqualified or poorly qualified workmen are sometimes employed at wages which they could not possibly command in a competitive market" (UG 17/1956, p.3).

13 The main policy instrument adopted by the UP and HNP governments to combat BOP difficulties were import controls. Importers were given a quota of non-sterling exchange equal to 50% of the amount spent on non-sterling imports during 1947. Nevertheless, imports continued to rise in 1948, largely as a result of the demand for producer goods in connection with the opening of the new gold fields (De Kock, 1950, p.63). Further restrictions involving a system of import licences for imports from the Sterling Area, commodity control in respect of non-sterling imports and on extension of the list of prohibited imports occured in 1949 (SARB, 1971, p.51). When the BOP came under increasing pressure in 1952 and 1955, import controls were once more instigated.

14 The effect of price controls was particularly strong during 1949-1951. Price controls had been introduced to provide a buffer against the

inflationary pressures caused by the restriction of imports and the strong inflow of capital following devaluation in 1949.

15 See Lombard and Stadler, 1980.

16 The output:capital ratio declined by 3,3% p.a. and the profit share rose by 3,3% p.a., thus resulting in a constant rate of profit.

17 The sectors which have not been included are
1) The transport, storage and communication sector which is dominated by state monopolies measuring their capital stock in an unreliable way (ie at historic rather than replacement cost)
2) Finance, real estate and business services, and government community social and personal services, ie sectors which have little capital equipment and hence measuring rates of return on capital is meaningless.
3) The residual sector known as 'Other' in the national accounts.
4) Agriculture - the measurement of capital is suspect in this sector.