

UNIVERSITY OF THE WITWATERSRAND, JOHANNESBURG

# HISTORY WORKSHOP

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STRUCTURE AND EXPERIENCE IN THE MAKING OF APARTHEID

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## SUMMARY.

This paper explores at a broad macro level the sources of economic growth of South Africa since the Second World War. Economic growth is distinguished from economic development and is defined as a sustained increase in real per capita incomes. It is argued that such a per capita income rise will result, on the whole, in an increase in the range and quantity of goods and services consumed and enjoyed by individual members in a society, and hence is a desirable long term goal. Historically economic growth in almost all industrialized countries has led to an improvement in living standards - again a desirable objective. Attention is paid to the process of economic growth in general and to international comparisons.

The intention is to stimulate discussion and to suggest that the previous debate revolving around apartheid or capitalism as either the hero or the villain is too narrowly focussed. This paper rejects both the capitalist and the neo-marxist theoretical framework and argues for an empirical Benthamite utilitarian approach, which is goal orientated ready to draw on a variety of methods and institutional structures likely to engender maximum rates of economic growth, but compatible too with a more equal distribution of income than is presently the case. Particular emphasis is placed on access to property and the openness of the economy enabling complete mobility of the factors of production.

The paper works within a thirty year time framework, circa 1945 to circa 1975. Empirical and statistical evidence and cross country comparisons suggest a highly complex interplay of political and economic factors in generating economic growth. The phasing of growth within business cycles is examined. South Africa has been part of the international economy and hence exogenous growth factors show both the vulnerability to and the challenge offered by the international connection. Foreign investment, trade flows, access to foreign technology and innovation and the flow of labour supplies across national boundaries are explored as possible sources of growth. Within South Africa our starting point is the factors of production. Endogenous growth factors reflect in the savings and investment levels (all aspects of capital), the age profile, the quality and supply levels of the labour force (the labour component) and the related achievement of productivity-based growth gains and the resource base of the economy (broadly interpreted as the land element) are discussed.

A major section of this paper deals with the role of the state in the S A economy-both positive and negative, in the growth process. Here the net is thrown wide to examine the state as an active investor and as a passive guarantor of capital and economic stability, both as re-distributive agents vis-a-vis income, as a promotor of the possibly dysfunctional dual economy. The growth implications of investment by the state in strategic and military structures is briefly commented upon. Anomalies in the state views and policies relating to economic growth are apparent.

The paper examines constraints upon S A economic growth and the major points of dispute and debate in analysis of growth. At times it is not always easy to separate cause from consequence, or a situation where the manifestation of growth in one period, becomes the basis for further growth in the next period. The conclusion attempts to identify possible future pro-growth economic approaches.

## INTRODUCTION

*"A new South Africa is possible only if it is bolstered by a sound and growing economy, with particular emphasis on the creation of employ employment.... The central message is that South Africa, too, will have to make certain structural changes to its economy... In this process, preference has to be given to allowing the market forces and a sound competitive structure to bring about the necessary adjustments.*

F W De Klerk, 2nd Feb., 1990.

Economic growth is a fundamental issue for social scientists for it is central to the question of wealth creation and wealth distribution. Implied in the exploration of the causes of economic growth in the past is the hopes that the identification of such sources will indicate an appropriate growth path that can be followed in order to generate an ideal or maximum growth rate in the future. Economists argue that cross country comparisons of past growth patterns will possibly yield formulae for developing nations, enabling such countries to emulate their more "advanced" neighbours in the global village. The descriptions of "developed", "developing", "underdeveloped" and "undeveloped" have meaning only in relation to the concept of economic growth and the characteristics of that growth. It is a Western thought construct that makes the fundamental assumption that economic growth is a desirable goal, not only as an end in itself but as a means to another even more elusive but valued objective- a better ordered society in which the material wants of all are met. There is an implicit and perhaps naive belief that economic growth by its very nature will lead to the fairer distribution of the fruits of productive labour, greater well-being, the elimination of poverty and the eradication of material want. A rising and acceptable standard of living will be the end product. Economists are seldom philosophers, but this simple belief in economic growth as a "good thing" is a part of the mental baggage of a belief in the inevitability of human progress through time. The more productive, more efficient, more cost-effective use of resources culminating in a Benthamite objective of the greatest good of the greatest numbers is viewed both as part of the process and the result of the experience of economic growth. Although it has been observed that the process of modern economic growth may well lead to increasing inequalities in income during initial phases of development, there has been little discussion concerning the acceptability of a trade-off between growth and inequality, but there are significant policy implications.

The study of economic growth is pertinent to South Africa. In 1974 a workshop organized by social scientists, on the theme of economic growth and political change in South Africa was held at the University of Natal. This conference gave rise to book on essays on this theme edited by Lawrence Schlemmer and Eddie Webster. The central theme of the book was the debate about the relationship of race and class to the distribution of wealth. Emphasis fell on the South African worker, both white and black, as producers and as members of interest groups and classes. Many of the contributions had a strongly predictive character arguing either pessimistically or optimistically as to the likely effect of economic growth on the future economic, social and political position of the South African worker. What was termed "the older or conventional viewpoint", revolved around two key related theses, first, that economic growth was per se a fundamental solvent of existing social and political structures and second, that race prejudice and most particularly apartheid, was

irrational and could not survive the logic of economic rationality which was inseparable from economic growth in a market economy, such as South Africa. (2) The "revisionist thesis" postulated that the South African economy was a labour repressive economy in which the very process of economic growth and specifically the rapid accumulation of capital and the high living standard of the White working class, was made possible by the political machinery of repression which assured the continued inferiority status and economic position of the Black workers. (3) In Fisher, Schlemmer and Webster's introductory essay it was argued that neither system, the market economy nor a labour repressive economy existed outside or independent of political structures "there is probably some kind of continuum, which possibly also represents an historical trajectory". The book was a major contribution to the debate that dominated the 1970s, and the revision view, provided a fresh and original perspective by questioning the fundamental assumptions of the liberal school. But it is my contention that because of its strong labour orientation and the depth of the divide between so-called liberal and revisionist social scientists and historians, it was not possible at the time to take a hard critical look at the evidence about economic growth and its sources. The economists whose work was included in the book, Gavin Maasdorp, Norman Bromberger, the late Jill Nattrass and Mike McGrath were themselves interested in the specific labour/employment/income differential aspects of the debate and did not focus on the broader totality of the economy. 4

Brian Kantor and David Rees did return to many of these questions in their study, "South African Economic Issues", applying the tools of orthodox economics to important topics in South African economics. 5 The approach was topical and discussion wide ranging. There is perhaps a lack of unity, but the conclusions are challenging. In 1977 the Nedbank Group Economics Unit under the leadership of Merton Dagut produced South Africa: an appraisal. 6 Aimed at informing the overseas investor the approach was scholarly, order and analytical and raised essential issues about recent economic growth.

This paper poses some questions about economic growth in general, drawing on cross-country foreign comparisons but primarily looks at the sources of economic growth in the South African economy between 1946 and 1975, and by implication, attempts to identify likely constraints on economic growth at a macro level. The study attempts to differentiate between manifestations of growth and causes of economic growth, although cause and consequence are sometimes difficult to dis-entangle as one moves from one decade to the next. The identification of the factors of production (land, labour, capital, entrepreneurship), is a static description of what exists in any economy. Our interest is in how these factors related to one another; how they combined to induce growth over a specific time period at a specific rate. Could that growth rate have been higher? What were the implications of that growth for income distribution and welfare? Much of what I have to say is tentative and suggestive and I am well aware that it is open to debate. Not all of what one wishes to measure lends itself to precise quantification. Certain questions are unanswerable because historians study what happened in the past, rather than what might have happened! This is the start of a larger study and I am well aware of the limitations -each paragraph needs a chapter.

ECONOMIC GROWTH. A couple of fundamental definitions are appropriate to demarcate guide-lines. "Economic growth" denotes, basically a sustained increase in real per capita incomes. Historically conditions of economic growth are a recent phenomenon for sustained growth only became a discernable pattern in the economic performance of certain economies in the modern period, and appeared to be associated with changes in the structures of production, technology and rising urbanisation, that came to be labelled as the *industrial revolution* in the Northern hemisphere. Temporary short-run improvements in income did occur in earlier periods owing to bumper crops or to windfall gains in the terms of trade, but are of little long-term significance. Indeed the very concept of a sustained rise in incomes over a long period of time is novel, and whereas the social scientist frequently focusses on the reasons for a lack of growth, a gentle reminder from the historian that it is the presence, rather than the absence of economic growth that requires an explanation. In other words, in the very long-run growth is abnormal and stagnation or retreat is normal. Real incomes is stressed because it is advisable to eliminate changes in the value of money and price fluctuations. Per capita income points to the importance of linking possible gains to likely increases in population, which then minimise those gains. Admittedly this standard definition says nothing about income distribution and in South Africa the question of racial income inequality is central to an understanding of growth. (I shall return to this point later in this paper.)

Economists are seldom good linguists and hence there has been some semantic confusion over the definition and the meaning of economic growth and economic development. Development and growth are frequently used interchangeably. But development indicates a change in the economic structure denoting a change in the principal economic activities, diversification away from a single sector economic activity towards a more broadly based economy. "Structural transformation" is the criterion used by some economists to define the status of developed and underdeveloped countries. Simon Kuznets talks about economic growth and structure to differentiate between the two processes. On the other hand, W W Rostow's seminal study on "The Stages of Economic Growth" in fact concerns stages of economic development. In any economy a growth of incomes can occur without structural change. Although when structural change does occur it is usually associated with an increase in real output and real income per head.

Nor is it appropriate to equate a rise in per capita incomes with an automatic or a commensurate improvement in welfare and material wellbeing. Per capita incomes cannot be used as an index of economic welfare, and particularly so in cross-country comparisons. Welfare expectations also change over time; put simply, what was once luxury items become necessities. Material wants are infinite and urban material priorities may differ greatly from rural requirements (sewerage systems, street lighting, telephones for example). Furthermore there is controversy about eliminating or at least allowing for the social costs of economic growth; which at times may be so grave as to nullify the beneficial gains of growth.

Marxist analysis of economic relationships between countries has another perception of economic growth, with growth perceived as a zero-sum game. A country can only experience economic growth if another country is impoverished in the process. Gunder Frank's work

on Latin America presents the thesis of the development of underdevelopment.<sup>10</sup> He argues that rich first-world countries grow because poor third-world countries are exploited; that trade is an unequal contract and that underdevelopment is actively and positively encouraged in dependency relationships between countries. This type of zero-sum analysis provides an emotional underpinning for the pleas for a New World Economic Order. The underdevelopment model has also been applied within countries, to differentiate between rich and poor regions. In South Africa impoverished, barren exclusively Black settlement areas, are contrasted with the wealth of the prosperous, thriving high income White settlement areas and the obvious seemingly obvious conclusion is drawn: Black poverty is caused by White wealth.

**SOUTH AFRICA'S GROWTH PERFORMANCE:** This section discusses the parameters and patterns of growth in South Africa. The total output of goods and services produced in South Africa, measured in constant 1980 prices, increased from R 3 258 million in 1920 to approximately R60 000 million in 1980, equating to an average annual compound growth rate of 5% per annum.<sup>11</sup> Since population grew from 6 million to 28 million in a consistent land area (note since South Africa's boundaries changed official statistics distort population figures), these figures give us a real growth per capita of 2% per annum. If we change the time span we arrive a very similar figures; between 1933 and 1965 per capita incomes grew by 2% (with population increasing by about 2.3 per cent per annum and real national product growth of approximately 5% per annum).<sup>12</sup>

Natrrass presents the data, using 1970 as the index year by the decade:<sup>13</sup>

#### THE GROWTH IN SOUTH AFRICAN OUTPUT 1911-79

	1911	1920	1930	1940	1950	1960	1970	1979
Est.G.D.P. in (R million)								
1970 prices	1 225	1 000	1947	3 170	4 434	6 722	11 839	15 474
Growth Rate over Decade	-2,0	6,9	5,0	3,4	4,3	5,8	3,1	
Share Produced by:								
Agriculture	21	22	14	13	18	12	8	8
Mining	28	18	16	13	13	14	10	13
Manufacturing	4	7	9	12	18	21	23	25

(Source: J Natrrass: The South African Economy, 1981, p25 )

Natrrass thus calculates an annual average rate of growth of output between 1911 and 1979 at a price constant rate of 3,8%. Following D Hobart Houghton's initial classification, She identifies five periods of relative growth stagnation, namely, 1920-22; 1928-32; 1952-53; the early 1960s; and 1974-79. During the decade, 1973 to 1982, the growth of G D P per head at constant prices averaged only 0,79 per annum, although there were wide variations as in four of the ten years there was negative growth.

<sup>14</sup> If we take 1960 to 1982 as our time period then the real G D P per head of population puts in a better appearance at 1,8 per cent per annum.<sup>15</sup>

Structurally, there were sizeable changes in the contributions of the three major sectors to output; with a consistent decline in the contribution of agriculture to the G N P and a parallel growth in the share of manufacturing, as can be seen in the table above. The contribution of mining declined consistently until the decade of the seventies and consequent upon the changes in the gold price and a renaissance in mining industry a larger percentage share was recorded in that decade. In the early eighties, the contribution of mining to output reverted to a level of between 10,5 and 11,5 per cent, whilst by 1982 the share of manufacturing at 33,0 per cent was exceeded by that of services at 35,8 per cent.<sup>14</sup>

**SOUTH AFRICA AND INTERNATIONAL COMPARISONS:** How have South Africa's growth rates compared with international per capita growth rates? Simon Kuznets' standard computations of South African per capita product growth per annum over the time period 1911-1953 was 2,4 %. The comparable United Kingdom per capita National Product annual growth rate over a longer time span, 1860-1953, was 1,25%. The United States G N P grew at a per capita annual rate of 2,03% over the time period 1869 to 1954. The comparable figure for Russia/USSR over the period 1870 to 1954 was 1,54%.<sup>17</sup> Nineteen countries were studied by Kuznets in his pioneering analysis of modern economic growth; six of the 19 countries (Norway, Sweden, U.S.A., Canada, Japan and South Africa) show per capita income increases "close to, or well over, 20% per decade".<sup>18</sup> Thus a per capita per annum increase in the region of 2% was considered high, unusual and of relatively recent origin even in developed countries of the world prior to the Second World War. Such growth rates were considered to be rapid because cumulation over a century indicated the achievement of relatively high income levels, but also indicate that such growth rates could not have prevailed over more than the recent past. It was also a largely Western phenomenon. In the 1960s during the period of the world boom South Africa's growth rate per head was slightly below the international average, and in the 1970s having decelerated to well below 1 per cent growth per annum was significantly less than the average international average.

Since the Second World War per capita growth rates have been rather higher and a greater divergence in growth rates are apparent, as is shown in the following table:

**ANNUAL RATES OF GROWTH OF PER CAPITA PRODUCT IN PERCENTAGES.**

Country	Time Period	1	2	3	4	5	6
Japan		1,6	1,4	8,4	3,6	9,5	9,9
Germany/W Germany		0,7	1,2	5,0	2,5	3,6	3,5
Italy		1,6	1,3	4,8	2,5	4,6	3,8
France		1,5	1,0	3,7	1,9	4,7	4,9
Sweden		2,0	3,2	3,5	3,3	3,2	2,5
Denmark		1,2	1,3	3,4	2,0	4,0	3,8
Netherlands		1,5	0,3	3,3	1,3	4,2	4,3
Norway		2,5	2,6	3,2	2,8	4,0	3,9
Belgium		1,2	0,6	3,0	1,9	4,2	4,3
United Kingdom		0,5	1,1	2,5	1,5	2,0	1,9
Australia		0,4	1,8	2,2	1,6	3,3	3,2
Canada		0,8	1,9	1,9	1,9	3,7	3,5
U. S. A.		1,5	1,3	1,9	1,8	3,1	2,3

Time periods: 1 Beginning of the 20th Century to 1925-29.  
 2 1925-29 to 1950-54  
 3 1950-54 to 1963-67  
 4 1925-29 to 1963-67  
 5 1960-71 or 72  
 6 1965-71

Source: Moses Abramovitz: *Rapid Growth Potential and its Realisation: the Experience of Capitalist Economies in the Postwar Period*, page 33 in *Economic Growth and Resources*, Vol 1: The Major Issues edited by Edmond Malinvaud.

SOUTH AFRICA - FIRST OR THIRD WORLD COUNTRY ? By 1982 the G D P per capita at current prices was R 2 644 (or \$2 440), and for the G N P the figure was R 2 532 (or \$2 337).<sup>19</sup> Statistically this placed South Africa among the top third of countries included in the 1981 World Bank Atlas. With a per capita G N P one-fifth of that of the U S A but double that of Nigeria, the problem of accommodating South Africa within an international classification of development models or economy types still persists. This difficulty is hinted at in the dilemma - is South Africa a first or a third-world country?-but in economic terms is rather more complex than this. Dualism has manifested itself not only in a market-orientated / subsistence economy divide but also in the description of its modern economy both as a primary producer and as an exporter of manufactures. Until 1980 South African was bracketed with Australia and New Zealand, by the I M F, as "more developed, primary producing countries". In 1980 South Africa was reclassified as a "non-oil developing country" and further redefined as a "major exporter of manufactures". However the Bank of International Settlements in 1982 classified South Africa as one of twelve, "other developed countries". Yet it is as the producer of gold that South Africa's performance has matched that of other primary producing countries, but the nature of the product conveys a unique economic positioning in any international economic league table.<sup>20</sup>

COMPARISONS IN THE CONTEXT OF THE AFRICAN CONTINENT. The validity of intra-continental African comparisons with South Africa has been keenly debated. Once again there are problems of classification. Is South Africa a westernized country in Africa and a likely model for other African countries or are the differences in history, political structures and objectives too great to make comparisons realistic? By 1981 South Africa's population was the fourth largest in Africa (after Nigeria, Egypt and Ethiopia). Its 1980 G N P (at market prices) was second to that of Nigeria, but its per capita income in 1980 at \$ 2 290 was less than that of Libya (\$8 640) and Gabon (\$3 680). There are vast disparities in income levels and in income distribution both across the African continent and within individual countries, but the reasons for differences in income levels and growth rates in Africa are beyond the scope of this paper.<sup>21</sup>

PATTERNS OF ECONOMIC GROWTH: Many economists have worked on empirical patterns of economic growth or essential development features using cross country comparisons. J D Gould concentrates on the roles of agriculture, capital, foreign trade, technology and the residual in generating growth, although is discussion ranges widely through time and across countries.<sup>22</sup> He reflects on the nature and processes of structural change in these specific areas and stresses that growth is not simply a question of measuring inputs against outputs. Best known of the exponents of economic growth is perhaps Simon Kuznets. He presents extensive empirical comparative evidence

but also reflects intelligently on the difficult or impossible to quantify non-economic factors. He identifies a significant number of characteristics of modern economic growth that were common to developed countries surveyed in his study. Interesting to note that whilst South Africa was included in his study published in 1959, his major work published in 1966, South Africa no longer appeared in the empirical evidence on specific countries.<sup>23</sup> Amongst the factors associated with high rates of economic growth, Kuznets identifies substantial rates of population growth, a decline in the share of agriculture and related activities, rises in the share of manufacturing and public utilities, structural changes within manufacturing production from less to more durable products and from consumer to producer goods; and increases in the share and structure of the service sector. Kuznets stresses that a rapid rise in per capita product has been due to improvements in the quality of inputs, that is an improvements in efficiency and productivity not simply of labour but also of equipment. As gross capital formation proportions rose a rise in the ratio of the capital stock to the labour force accompanied it. Changes in the structure and product of the labour force called for a capacity in the society for rapid institutional adjustment and mobility of both capital and population. David Landes arrived at similar conclusions in his study of technological change and industrialization in Western Europe.<sup>24</sup> It was possible for growth to be transmitted rapidly internationally because of the revolution in transport and communication that had its origins in the nineteenth century. International flows of people, commodities and capital promoted higher rates of aggregate growth in the receiving countries between 1850 and 1914. Hence the proportion of overseas trade to aggregate product rose significantly at that time.<sup>25</sup>

Hollis Chenery and Moises Syrquin identify ten basic processes that appear to be essential features of development in all countries surveyed for the period 1950-1970. The process is further refined by twenty-seven variables.<sup>26</sup> These processes describe multi-dimensionally the conduits for the overall structural transformation of a poor country into a rich one. The process is described as one of "structural transition". The authors survey patterns of investment, government revenue, education, domestic demand, the structure of production, the characteristics of trade, the labour structure, urbanization, demographic features and income distribution patterns. Obviously there are qualitative differences between large and small countries. Their objective is to show how resources are "accumulated" to increase productive capacity and future output. By means of regression analysis the relationship between levels of per capita income and features such as savings and investment, the rise in taxation and government revenue and expenditure, expenditure on education etc. They too identify a transfer of resources from the primary to the secondary sector, a rise in the ratio of capital stock to the labour force and significant changes in the pattern of trade as per capita incomes rise. Their hypothesis is that continuous structural change is related to the growth of income and remarkable uniformity was found among the larger developing countries at similar income levels. Hollis and Chenery advance four principal patterns of resource allocation (primary specialization, balanced allocation, import substitution and industrial specialization).<sup>27</sup>

Equally relevant is E Denison's monumental study as to why growth rates differ between countries, for in the period since the Second World War, within the league-table of high economic growth rates there

has been the fast and slow growers.<sup>28</sup> Japan's unique long-term post Second World War growth has to be contrasted with the growth rates recorded by a very much slower growing U.S.A. and an even slower U.K. Denison concentrates on the measurable contributions of capital, employment, and the more efficient re-location of resources to the growth of income. The analysis does not explain all of the differences and raises the further question, if investment rates differ across countries why do they differ?

The description of a process tells us little about the direction of causation. The identification of what happens to key variables when per capita income rises does not tell us how it is possible to increase for example, investment, or which of the four patterns of resource allocation, advocated by Chenery and Syrquin, would be appropriate for any particular country. There are policy implications for governments wishing to attain higher levels of economic growth. It is this aspect that is the most controversial part of the discussion on sources of economic growth. There is nothing inevitable about the growth process; choice remains at the core of the discipline of economics.

**CAUSES OF ECONOMIC GROWTH:** All economies function because the factors of production: natural resources (land), accumulated wealth (capital), and people (labour), combine to create an output for current consumption. In a modern capitalist economy ownership may well be divorced from production and the organization of the factors of production, hence the addition of a fourth factor of production, namely, entrepreneurship. Entrepreneurship broadly covers the skills involved in innovating, arranging, structuring organizing the sequence of production. A specific education and range of skills is required to gether with the ability to accept and to take risks. The methods and tools of production can be termed technology. Thus at the simplest level economic growth is a function of useable natural resources, active capital formation, an industrious labour force and vigorous entrepreneurship to which the best practice technological innovation is applied. Capital incorporates the accumulated wealth of the society and local savings channelled into investment. Labour analysis leads one to ask questions about the quantity of labour available, its skills and educational capabilities, the rate of population growth, the profile of the economically active population, the employment opportunities that exist and the mobility of that labour force. Natural resources covers not only agricultural production but mineral resources and manufacturing capacity. Capital formation, the labour force, technology, entrepreneurship, the resource base may all be endogenous factors in the gross process that could be augmented enlarged by additions of foreign investment, access to foreign technology, and international trade, the latter grouped together as exogenous factors.

The concept of "pre-conditions" for economic growth require a word of explanation. The concept is one that has caused considerable confusion for it appears to make the assumption that a set of factors or arrangements must already be in place for something called "modern economic growth" to be initiated. These factors range from an infrastructure to the possession of appropriate knowledge and technology, from appropriate institutional structures to pre-existing level of capital accumulation. The implication is that pre-modern growth at a rather slower pace precedes modern growth, when there is an acceleration in the rate of growth. This raises the debate about continuities and discontinuities in economic growth and whether "the

great discontinuity" was the industrial revolution. Closer analysis of pre-conditions reveal themselves to be peculiar features of a particular economy and that for the "late-comers" to industrialization the creation of so-called pre-conditions can become part of the process of growth. In similar vein there have also been discussions on the concept of "necessary but not sufficient" conditions for economic growth but again there is not consensus on the subject. 29

However, definitions explain very little about the inter-relationship of the factors of production, whether endogenous or exogenous, the institutions and organizational arrangements, the structure of government, the monetary and financial structures and the behavioural patterns that a society creates. Nor does it explain the principle of sustaining economic growth into the future; how society persuades its populace to desist from current consumption in favour of larger or more advantageous consumption in the future. Thus far more fundamental to an understanding of the growth process is an analysis at a deeper level of the methods and incentives that a society uses, and most particularly South African society uses to achieve a particular rate of economic growth. The converse of the question is a explanation of the failures of a society to achieve a higher rate of growth ie the failure of an economy to grow at levels experienced by other countries, or a sudden halt and a reversal of rapid growth. Thus despite the industry of the economists and econometricians how much of the growth process is measurable in the sense of determining the "real" causes of economic growth.

The Russian experience in the 1890s is instructive. This was the decade of the great industrial spurt, the years of forced industrialization, and the Witte system. An annual industrial growth rate of eight per cent was recorded. The Tsarist government actively supported industrialization through railway construction and an arms industry -forcing the pace of growth, successfully encouraging foreign investment, stabilizing the rouble and introducing the gold standard, but funded the experiment through a broadened tax base dependent on peasant production, exports of peasant grain and indirect taxation. The crisis in peasant agriculture in the early years of the 20th century brought the Witte system to an end, for it revealed the instability and precarious nature of the "real" cause of growth. 30

This is where the contribution of the sociologist or the economist who thinks in sociological constructs can make a contribution. M. Morishima is a Japanese economist of this type, who book, "Why did Japan "Succeed"?" discusses the contribution of Japan's version of Confucianism to Japanese long-term economic "miracles". 31 This explanation perhaps comes as a surprise when one considers the varied the carefully measured inputs that economists have studied in an effort to explain Japanese economic "miracles" (both before and after the Second World War). But the thesis is not an implausible one when we contrast it with the Protestant ethic as an explanation of north western Europe's economic performance and expansion in the early modern period. It has become a kind of popular myth that economies grow because of some special national trait or characteristic of its people summed up in "the industrious Japanese", or the "thrifty Scot" or the linking of Quaker sobriety and commercial success. In South Africa the determination of the Afrikaner to break into banking, mining and business circles was perhaps one of the spurs to growth in the post-1945 period?

THE SOUTH AFRICAN ECONOMY. Let us now return to the South African scene and look beyond the growth figures at the way in which the economy underwent structural change after 1945. What were the characteristics of economic growth? In the first instance South Africa did indeed experience many changes similar to the international growth patterns. Most important was the process of industrialization, founded upon the mining industry but with manufacturing emerging as the leading sector during the thirties. As described, there was a relative decline in the contribution of the agricultural sector to G D P and a steep rise in the share of manufacturing production, exports and imports. There remained a strong symbiotic link between the mining and manufacturing sectors. The mining houses increasingly sought to diversify their activities and portfolios against that seemingly inevitable exhaustion of a finite natural resource, that could only be sold on the world market at a fixed price (effectively the situation until 1971). But the major bottleneck for the manufacturing sector was not capital, but foreign exchange to finance the importation of key raw materials, technology and equipment. Hence manufacturing continued to be dependent on the mining sector to provide that vital foreign exchange. Yet as Horwitz has pointed out the state's protective tariff policy towards manufacturing had the effect of raising the cost structure and hence reducing the output and income of mining and thus impacting negatively on the manufacturing sector. Despite the changes in the composition of exports it was not until the seventies and more particularly the eighties that the manufacturing sector began to export in sizeable volumes.

Economic demands that grew out of the Second World War provided a massive stimulus to the manufacturing sector. It was a period of unbalanced growth as import replacement became a sudden necessity in iron, steel and engineering. Although the value of output more than doubled during the war there were still less than 10 000 manufacturing establishments in 1946. The industrial labour force increased by more than 50% but perhaps the most remarkable development was the absorption of over 100 000 new industrial workers absorbed during the war, who were not white.<sup>32</sup> Labour in general was not a bottleneck in the economy at this date, although particular specialist skills were in short supply. Immigration added 90 500 to the population between 1946 and 1949.<sup>33</sup> By 1954/55 total employment in manufacturing amounted to 653 000. (Census statistics for 1951 show a total economically active population of 4,6 million or 58,5%).<sup>34</sup> Between 1945 and 1955 the value of net output grew by almost 250%; between 1955 and 1970 the percentage increase was 181%.<sup>35</sup>

The development of the Orange Free State goldfields together with new developments on the Witwatersrand meant that mining was still a magnet for investment. Despite large development funds being sunk into these new mining ventures, the profitability of gold mining fell during the forties in the face of inflationary pressures and a static gold price. The 1949 devaluation of sterling, changed the picture. The development of uranium extraction and other base minerals after 1945 was a further natural resource stimulus for economic expansion. Similarly to capital, shortfalls in technology could be imported. Nattrass and Brown established in a 1973 survey of manufacturing that 73 per cent of the firms surveyed stated that 90% of the technology they used came from abroad.<sup>36</sup>

Over time the structure within the manufacturing sector also changed. Increasing variety in the range of products, sophistication in the type of product and a response to the changing demands of the consumer were all obvious characteristics. As in the case of other industrializing countries. South Africa also displayed the capacity to switch from production of fairly simple consumer products (the jams, candles, furniture and blankets range of goods) to producing chemicals, electrical appliances, automobiles, machinery of all types and transport equipment. There have been two principal limitations in the growth of manufacturing. Firstly, the import-replacement orientation of manufacturing and the nature of its tariff-regulated cost has had an impact on the size of the market and limited component specialization and economies of scale. Secondly, until the 1970s capital widening took precedence over capital deepening. The creation of more jobs was obviously desirable from the point of view of spreading the benefits of industrial employment, on the other hand, it limited productivity gains. Nonetheless, Nattrass shows that capital deepening after 1951 was a more pronounced feature of investment in manufacturing than in the period 1919 to 1951.<sup>37</sup> One might add a third limitation to manufacturing expansion, namely, South Africa as a late-comer to industrialization has tended to respond to demand for a product rather than initiate a new product in anticipation of a local demand. This has also been a consequence of the import-orientation of industrial policy.

Both mining and manufacturing drew heavily on imported capital immediately after 1945. Between 1947 and 1948 capital inflows amounted to R681 million, as domestic savings were insufficient to finance local investment. Up to 1954 domestic savings financed only 66 per cent of investment.<sup>38</sup> However between 1954 and 1982 98 per cent of domestic investment was financed with domestic savings.<sup>39</sup> The development of specialized financial intermediaries was important in this respect for it created a market place where "savers" could be matched with "investors". There were however considerable fluctuations in the savings/investment ratio. Paralleling the expanded capability of the economy to meet its own investment needs was a sharp rise in the savings/income ratio. (from 0,17 average between 1946 and 1957, to 0,35 in 1980) and the investment/income ratio (from an average of 0,23 in the 1950s, falling to a low of 0,19 in 1962, but rose to 0,35 in 1981). Merton Dagut in the Nedbank Group appraisal of the S A economy shows that the rise in the relative importance of investment occurred mainly at the expense of consumer spending.<sup>40</sup> By 1972 the value of South Africa's fixed capital stock at current prices was just over R38 billion.<sup>41</sup>

What then were the major sources of domestic savings hence investment? Statistically savings are divided into "personal savings", "corporate savings" and the savings of "general government". Corporate savings statistics are only available from 1953 onwards, but show a significant rise from an initial insubstantial figure, to 10 per cent or thereabouts in the sixties and by the eighties its contribution amounted to about one-third of total savings, with the gold mining boom in the seventies a significant cause of this shift. In contrast there has been a long-term decline in the contribution of personal savings to total savings, from close on one-third in the sixties to a low of 11 per cent in 1982, with South Africa recording one of the lowest ratios of personal saving to personal disposable income in a 1978 United Nations list of 13 countries (along with Finland and the U S A.). Overall fixed investment spending by the private

sector whilst continuing to grow (indeed its growth exceeded the growth of real gross domestic expenditure), nonetheless showed a long term relative decline as a proportion of total fixed investment from 1946 onwards.

In contrast the share of investment spending by the public sector grew, particularly that of the public corporations during the sixties and seventies. In 1960 public corporation investment accounted for a mere 6,2 per cent of total fixed investment spending but by 1979 the figure was close on 25 per cent. Strategic, military infrastructural and economic needs of ISCOR, SASOL, ESCOM and ARMSCOR motivated this significant rise in expenditure. In a developing economy state rising infrastructural expenditure is a normal pattern, but in South Africa abnormalities crept into the situation in the 1960s with political and strategic considerations taking precedence over purely economic factors. During the period of economic recession 1975 to 1979 state investment expenditure was anti-cyclical and compensated to some extent for the drop in private sector investment.

PEOPLE, LABOUR AND ECONOMIC GROWTH: The obvious starting point for a consideration of the contribution of labour to economic growth are the basic population statistics and their composition. They were as follows.

#### POPULATION STATISTICS: SIZE AND RACIAL COMPOSITION.

	1946		1951		1960		1970		1980	
	m	%	m	%	m	%	m	%	m	%
Blacks	7,8	68,6	8,5	67,6	10,9	68,3	15,3	70,4	30,4	72,2
Whites	2,4	20,8	2,6	20,9	3,1	19,3	4,5	17,3	5,1	13,2
Coloureds	0,9	8,1	1,1	8,7	1,5	9,4	2,1	9,1	2,6	9,0
Asians	0,3	2,5	0,4	2,9	0,5	3,0	0,6	2,9	0,8	2,8
TOTAL	11,4		12,6		16,0		21,8		28,6	

(Source: D Hobart Houghton: The South African Economy 4th Edition 1976, p270  
South Africa: An Appraisal, Johannesburg. Nedbank Group 1983, p 27)  
Note: The population of the balck national states, formerly part of South Africa have been included.

These statistics reveals a number of economically significant trends and imbalances. Firstly, in absolute terms the size of South Africa's population (small by comparison with Western European, Far Eastern or the U S A) has placed constraints on the size of the market. Secondly there is demographic diversity, such that the Department of Statistics continues to give us a break-down of growth rates based upon racial classification. Overall the rate of population growth accelerated from 2,10% (1946-51), to 2,54 % (1951-60) to 2,99% (1960-70), but there were racial differences with rate of natural increase for whites declining from 1,8 % per annum in 1950 to below 1 per cent by 1982, whereas black population growth began to accelerate in the 1950s and 1960s and only peaked in the late 1970s. Third notable fact was that although whites constituted a smaller proportion of the total population the unequal distribution of skills, educational resources and earning power became obviously and increasingly disproportionate. It was not until the 1970s that shortages of skilled manpower or high level manpower manifested as a possible constraint on growth.

Fourthly the high levels of population growth of the Black population places strains upon the economy because a skewed age distribution in favour of the young non-productive segment developed, but at the same time increased the potential supply of labour. <sup>44</sup>

The corollary is a potential increase in unemployment if the jobs are not created. Charles Simkins (1978) showed a rising unemployment percentage for blacks from 18,3percent in 1960 to 22,4% for 1977. <sup>45</sup> His statistics have been questioned by Jos Gerson who argues that unemployment should not be confused with poverty; the policy implication remained though a freeing of the labour market from artificial constraints. <sup>46</sup>

GROWTH AND INCOME DISTRIBUTION: South Africa has traditionally been identified as a country with a highly unequal distribution of income and more so because of the racial bias in income distribution. McGrath has shown that between 1920 and 1970 racial shares in income remained remarkably constant with the White share amounting to approximately 70 per cent and Blacks about 30%. <sup>47</sup> Since 1970 the proportion of total income enjoyed by Blacks has been rising; the White share of total income which amounted to 62% in 1975 had declined to 59% by 1981. <sup>48</sup> Racial income differences have been attributed to educational, and institutional manipulation; Whites have been educationally advantaged, trade union structures have historically better protected the White wage earner than the Black, the civil service and public sector jobs went to Whites in preference to Blacks, job reservation and the colour bar placed further further restrictions on the labour market for Blacks and artificially placed a premium on White skills. State protected jobs, superior bargaining power and a monopoly of high level manpower skills sums up the advantageous position of whites which were re-inforced after 1948, between 1946 and 1970. But closer examination of the issue and a glance again at the international experience reveals some intractable problems. Concentration on racial income differences obscures income differentials within races; we are also deflected from examining other factors and explanations of income differentials -eg income differentials due to geographical factors or population density, (urban/rural differentials), industry specific differentials, age and length of employment differentials, class specific differentials, or the competitive state of the labour market. For example, it is impossible to compare income derived from subsistence agriculture and income derived from employed industrial employment. In mining colour bar differentials were compounded by the nature of the labour market that incorporated the vast pool of foreign African unskilled job-seekers. Kantor and Rees makes the point that not only have whites enjoyed institutional, educational and legal income protection but have also enjoyed a cumulative real historical economic advantage in earning capabilities through family culture, background and historical circumstances. <sup>49</sup> Income distribution is a complex problem and it is difficult to separate discrimination from a host of other factors responsible for income differentials.

Economic development is no guarantor of more equal distribution, in fact the precise opposite. The Kuznets-Myrdal hypothesis postulated that the processes of industrialization and urbanization lead to a worsening of income distribution in developing countries because in the early stages growth is concentrated in the modern sector and there are significant factor productivity differences between agricultural and non-agricultural activities. Chenery's calculations confirmed this hypothesis, showing that the share of expanding GNP

received by the lowest 40 per cent of the income recipients declines whereas income share of the top 20% rose during the transition phase. However it was found that as per capita income rises that trend is reversed. <sup>60</sup> Thus the conclusion is that whilst segregation and apartheid was responsible for some of the income differentials and re-inforced and perpetuated those differentials over time, there were also other factors involved.

**GOVERNMENT AND GROWTH:** The topic is a large one and it is not possible to do more than to suggest ways of thinking about the appropriate role of government in the economy, if the goal is that of improved well-being of the entire population. At a fundamental level the ordering of the society by political processes creates a social and legal environment and infrastructure which may or may not be conducive to economic growth. There is no agreement on the most appropriate form that the infrastructure should take and government concern with the processes of growth is a recent one; and even when governments talk about the importance of economic growth they are generally have in mind the advantages likely to accrue to their constituency. Traditionally too, the state has been ambivalent in its interest in the economy: whether its objective ought to be with ensuring the best possible conditions for wealth creation or whether the state's function is to intervene with the process of distribution and re-distribution via transfer payments.

There are certain aspects of the political structure which are almost taken for granted in an economy. In Western capitalist economies individual self-interest as the prime motivator in economic behaviour underpinned original decisions about ownership and property relationships. Past decisions about property rights, not only with reference to the land but also in relation to company structures, moveable property, contracts etc, and the legal framework created to give validity and force to those relationships impinges on today's ordering of society. The North and Thomas thesis argues that the incentives necessary for sustained growth that had come into existence in Western Europe by the eighteenth century, were founded on the re-organization of efficient property rights over several hundred years. Institutional changes brought about a greater co-incidence of social and private returns to economic functioning. <sup>61</sup> Overall the state exchanged property rights and their protection for access to a guaranteed steady revenue (necessary both for administration and military purposes). It follows that differences in growth rates in European countries is to be explained by success and failure in property relationships, for example, the contrast between the Netherlands and England on the one hand, and the Iberian peninsula on the other.

In the nineteenth century the acceptance of limited liability, the move from partnerships to corporate entities and the growth of company law simply extended property concepts. The development of financial infrastructures relating to money, banking institutions, share markets, insurance companies are more sophisticated varieties of institutional property relationships and carry weight because of state recognition of such arrangements. Hard experience, trial and error have determined the shape of these institutions over a lengthy period of time.

Historically attitudes and institutions of property relationships have been ambivalent and strongly coloured by non-economic racial or ethnically determined considerations. The relatively late acceptance

of private property rights in the White agricultural sector was a retardative factor in generating output for the market. In mining too there was ambivalence in the relationship of state and private enterprise over ownership, mining rights and the access to the products of mining risk and labour. There was a trade-off between private enterprise exploitation and in exchange the acceptance of high tax rates. But perhaps the greatest ambivalence was shown in attitudes towards and development of appropriate institutions in the parts of the country that became the African reserves. Leaving pre-modern tribal institutions in place detracted from individual incentives, discouraged a flow of investment and ensured their future was reservoirs of one factor of production only, namely labour. The consequences of economic neglect was spelled out forcefully in the Tomlinson commission report but so-called remedial policies that followed were motivated by political and not truly economic considerations, despite Bantustans, homelands, separate development and the national Black states. The problem of what S H Frankel described as "the tyranny of economic paternalism" remained into the eighties. Migrant labour and influx control were the corollaries of the denial of property rights to the majority of the people. Group Areas, Separate Amenities and Colour Bar legislation further denied access to individual ownership of property both moveable and immoveable and prevented the most efficient return on productive resources.

The ambivalence to property rights exacerbated dualism, closed markets for a free flow of all factors of production and reduced the "openness" of the internal economy. This fundamental discrimination meant that the state itself functioned in a dualistic fashion -with one set of principals, guidelines, regulations and participation in the "modern" economy, but worked within a totally different set of assumptions, both political and economy in the "tribal" economy. Institutional restrictions on movement, education, social structures, property and enterprise were anti-growth. On the other hand state participation in the economy both directly in the provision of politically determined modern services (transport, water services and utilities, communications for example) and indirectly through the parastatal public corporations (ISCOR, SASOL, ESCOM, FOSKOR SOEKOR ARMSCOR for example) could have been both anti and pro growth. Anti-growth in the sense that the market has not determined the economic viability of the activity, and reflected a commitments to self-sufficiency in fuel, power and military hardware regardless of the costs or international prices of such commodities, but pro-growth in that vital infrastructural developments were provided, much investment was anti-cyclical and played an increasingly important part in capital formation. Between 1950 and 1977 the share of the public sector as a proportion of G D P rose from just under 20% to about 22% in the sixties, to above 25% by 1977 and 28,1% by 1979. <sup>52</sup>

The other aspect of the state's role in the economy revolves around the direct and indirect regulation of the economic activities of the private sector via fiscal policies, monetary policies, exchange rate and interest policies, wage regulations, price and rent controls, anti-monopoly regulation, import and export regulations and controls etc. Over the thirty year period 1946 to 1976 state approach was strongly interventionist and expressed a belief in the efficacy of active regulation to achieve maximum growth rates possible and in the desirability of economic growth. The state role was one of ironing out fluctuations, steering the economy towards balanced economic growth and taking responsibility for the employment of idle resources. In a

sense over this period S Africa was following an international fashion for direct controls over the economy; but direct controls became increasingly unfashionable after 1976 and there was a resurgence in the belief in the market as a corrective force. On the other hand, the state as protector of the defenceless, the channel for effecting transfer payments, as guarantor of minimum wages may well have been anti-growth.

**SOUTH AFRICAN ECONOMIC GROWTH AND THE INTERNATIONAL ECONOMY:** The South African economy has both benefitted from and been exposed to greater volatility through integration into the international economy, which in the post Second War War period became far more consciously co-operative. The economy gained from the institutional arrangements instituted to facilitate international flows of capital and commodities. Most particularly the establishment of a stable international monetary system whose numeraire was a U S dollar backed by gold, guaranteed a constant demand for a primary local commodity whose traditional role in the growth process had been anti-cyclical. The discipline imposed by a fixed international price for gold ensured low inflation rates in the fifties but at the same time probably limited the gains in real per capita income. Large capital outflows from 1959 to 1963 were the result of a lack of economic confidence in future political structures. International monetary stability though then played a part in the restabilization of the economy from 1963 onwards and the international economic boom of the sixties rubbed off on South Africa. In the sixties the economy tried to free itself from the dual dependence on gold and heavy export dependency via import substitution policies. International currency destabilization and the move to a floating currency system brought new challenges, opportunities and difficulties. The fact that gold was no longer sold abroad at a fixed price but at a market related, upwardly mobile price created an artificial boom, strengthened the balanced of payments, augmented capital resources via capital inflows, financed massive state infrastructural spending in the seventies and gave us a high rate of inflation. But private fixed investment expenditure stagnated between 1970 and 1977 and the country did not escape the negative effects of a trebling in the international price of oil. The rise in the price of gold masked what was in fact a deterioration in the terms of trade that set in from 1976.

Throughout the period (1946 -76) foreign exchange earnings were primarily derived from mineral and agricultural exports, despite diversification. In addition the trade/ G D P ratio remained high ( well over 40%). In fact diversification did not go far enough as the economy failed to exploit fully the gains that could have accrued through trade in more sophisticated manufacturing products in the 1970s. Capital good exports comprised only 5.3% of merchandise exports between 1976 and 1979. Despite a switch in policy from inward import replacement to outward export promotion, manufacturing exporters viewed foreign markets as stop-gaps during domestic recessions. <sup>53</sup>

**ECONOMIC GROWTH AND THE BUSINESS CYCLE:** Here the key question revolves around whether business cycles matter in economic growth? The magnum opus on the business cycle in South Africa was C G Schumann's study published in 1938; understandably it took the picture to 1936. <sup>54</sup> However after the War the business cycle became an unfashionable topic, for with the concerted international efforts to avoid the errors of the thirties it seemed that economics had indeed advanced as a science of management. The secular long term world-wide growth

pattern of the post-war era raised questions about the validity of cycle theories and explanations, for even when a downswing was evident its principal characteristic was not zero or negative growth but rather a deceleration in the rate of growth. Most countries, including South Africa were swayed by the plausibility of the argument that employment creation should take precedence over monetary stability and by the sixties it was the accepted doctrine that a little inflation and low unemployment was palatable and would not damage growth prospects. For South Africa it was a rather more complex situation but it did appear that the economy was in any event protected by gold, which traditionally behaved in an anti-cyclical manner. But the consistently high level of export dependence, referred to above, and the apparent openness of the economy to exogenous forces, did indeed cause international cycles to impact on S Africa, albeit following a time lag. This raises the issue of "export-led growth". It has been argued that cyclical upswings followed a rise in export earnings (because of the heavy export dependence) from which all good things could then flow. But after a period of easy money bottlenecks in supply showed an overheating. Conversely, a reversal of demand from abroad had the effect of inducing an export-led recession. During the seventies gold ceased to behave in an anti-cyclical manner, as the open non-monetary market took precedence over monetary demand in setting the price of the metal. Hence in recent years cycles have become far more pronounced. 55

**PRO-GROWTH FACTORS IN THE S A ECONOMY:** In summary the principal pro-growth factors during the period were property concepts, business structures and the existence of an open market. The growth of capital investment, the expansion of the manufacturing sector, and the growth of the domestic market were all growth stimulants. Heavy fixed investment in the infrastructure in the past, reduced transport costs and contributed to a widening of the market encouraging greater specialization. Capital supply was not a factor limited growth as domestic savings were augmented by access to foreign capital markets. Similarly there was no constraint imposed by a limited supply of entrepreneurs. However it would seem that since 1976 skill shortages and political restrictions in the importation of such skills from overseas and sanctions constraints on overseas capital investment has raised the price of investment and hence raised the returns on investment necessary to induce that movement of factors of production. Net annual immigration levels of between 30 000 and 40 000 between 1963 and 1975 reverse to negative flows of emigrants in 1977 and 1978. 56 Institutionally the state has both promoted economic growth and restricted the growth potential, creating the conditions for the free circulation of the factors of production, guaranteeing property and legal rights, pursuing sophisticated monetary and fiscal policies but at the same time in as much as apartheid restricted the flow of the factors of production, introduced artificial restraints on entry into specific occupations. Race conscious attitudes towards education and employment restricted the growth potential. Productivity increases played a relatively minor role in growth. In other words, measurable increased factor inputs rather than productivity. Educational attainments were an obvious constraint on growth in general and productivity in particular; illiteracy, semi-literacy, the skewing of enrolment in favour of the first four primary classes, poorly qualified teachers and massive discrepancies in the levels of expenditure of white and black education had severe consequences for growth potential. Population growth and urbanisation expanded the market but the growth of unemployment and higher dependency ratios restricted the productive capacity of the economy. Income inequality

persisted and average earnings of White workers generally increased faster than the earnings of Black workers until 1972, but from 1973 onwards the position changed with income differentials for employed workers narrowing on a racial basis. <sup>27</sup> Low levels of inflation was accepted as being pro-growth in the 1960s, being regarded as the price to be paid for higher levels of employment; however in the 1970s as inflation rates rose to double-figures it was noted that too high rates of inflation had a negative effect on growth. The balance of payments during the 1960s and early 1970s (apart from the politically motivated capital flight of the early sixties) did not place constraints on growth until the mid-1970s. The current account was not the problem during the 1970s but the capital account began to reflect the changes in the political perceptions of S Africa's future by foreign investors. The decline in the gold reserves had a negative impact on the growth rate and capital outflows dampened the likely positive effects of rising exports.

**DEVELOPMENT STRATEGIES:** During the period under consideration there was no unanimity about appropriate development strategies. South Africa remained a capitalist orientated mixed economy with conspicuous anomalies in property relationships and ownership of the factors of production. Some critics have argued that commitment to and enunciation of a pro-growth policy was no more than rhetoric, because first principles remain an unequal institutional structure with limited access for all to the factors of production. Nonetheless policy directions can be gauged from the type of economic commissions and investigations established by the state and the recommendations that followed. The Tomlinson commission of 1954 showed an awareness of the perilous state of the reserves and recommended a complete restructuring of the reserve economy. In 1958 the Viljoen Commission on the protection of industries stressed import substitution in its recommendations. The 1972 Reynders Commission reversed this position and argued for export replacement. The Kleu report on appropriate industrial strategy published in 1982 recommended that development strategies and technologies should be in line with the country's resource endowments and emphasised the integrated nature of the Southern African economy. Development legislation and strategies have not always co-incided with the recommendations of official recommendations of committees and commissions. The 1960 Statement of the Establishment of Industries in Border Areas demarcated the geographical location of capital minimising the role of the market in determining the efficiency of capital. The 1967 Physical Planning Act was anti-growth in as much as it restricted development in natural growth areas but did nothing to encourage growth in the decentralised areas. By the end of the seventies the failure of a development strategy tied to political considerations had become evident. Readiness to adapt and change was shown in the incorporation of a new development scheme in 1980. The 1979 Riekert Commission report marked a clear break with the past in recommending the greater mobility for labourers but mobility linked to employment and accommodation. As we all know this was death-knell for influx control.

**FUNDAMENTAL DISPUTES:** Perhaps the literature on economic growth has clearly generated more heat than light! Whilst there might be substantial agreement on the statistics of growth and the rates achieved in the past, there is no consensus on the causes or sources of growth, despite comparisons with international data. There is no certainty that the rates of growth achieved in the past were the maximum possible rates of growth; nor can we replay the past as a

scientific experiment with a controlled and a variable model. It might be helpful, particularly with a view to a wider discussion of future policy directions, to identify the areas and issues that are in dispute.

The first point to be made is that there is debate about the co-incident of private and social returns and private and social costs of an economic activity. In any economic activity there may well be a divergence of private and social costs where a marginal gain to the individual may result in a marginal loss to the community. Individual self-interest may result in short term gains but long-term losses. Do individual property ownership rights equalise private and social rates of return? If individual property ownership does result in output increases and hence economic growth, how should the individual be persuaded not to raise social costs? Perhaps even more fundamental is the question of human motivation in the economic sphere. Do individuals act rationally being motivated by self-interest, with a certain action being pursued only the likely gains exceed the costs? Or are class interests stronger than individual interests; on balance are individuals more likely to act in concert or in competition with one another? Can the dispute be resolved by creating a system which places at its core the individual or one which emphasises communal identity?

There is no agreement about appropriate political and economic structures and about the relationship of these structures or institutions. The inter-relatedness of socio-political and economic structures raises questions about causal directions of change. Do political structures take primacy and determine the nature of the economy or do fundamental changes in the economy provide the leverage for aspiring, emerging groups to challenge and unseat the potentially declining but dominant group or groups? Economic growth will occur only when the participants in the economy are provided with the political and economic incentives to realise their potential.

In the South African context this debate has been subsumed under the terms of race vs class. Is this breakdown of relationships into class and /or race an appropriate one in the sphere of economic growth? Economic analysis in S Africa has tended to be constrained by racial stereotypes, this being the format of so many statistical tables. But class analysis based upon income or education might be a more satisfactory framework for understanding economic growth. Capitalist and socialist based analyses of the growth process in South Africa diverge in their account of why and how growth took place. Neo-Marxist analysis sees South Africa as an example of capitalist development, with race subservient to class and the process of growth re-inforcing white supremacy. The liberal interpretation stresses the dysfunctionality of racial discrimination enforced by the polity and economic growth, arguing that the rising costs of growth would lead to a challenge of the racial structure.

A thought-provoking contribution to this debate was the now renowned essay by Herbert Blumer the logic of industrialization in a racial context. He postulated that industrialization could accommodate itself to the racial order. But the concept of "the logic of industrialization" has been challenged and historical evidence elsewhere points to the variety in the format and direction of industrialization and in the consequent response of the social and political order. Perhaps what is at issue is not race but the extent to which South Africa responded to the challenges of growth and

industrialization in other ways (ability to make rational changes, a secular outlook, contractual and property relationships, the openness of the market and factor mobility.)

The importance of a national identity or character based upon a common religion, cultural heritage or language has also been debated and has been mentioned briefly in this paper. The emphasis on consensus politics expresses a vague awareness of the psychological importance of unity. But the fact remains that South Africa is best by disparities and differences in every respect thus the challenge remains to achieve economic growth despite this diversity and in the process create a co-operative identity, which is perhaps an almost impossible goal.

One path to identity would be through a single educational system with some commonly defined goals. But during the period discussed educational divisions became more pronounced, vast differences in approach and resource allocation remained and cultural identity of groups took precedence over the requirements of the economy. Within education there is the dispute about the appropriate format of a system to achieve maximum growth rates: elitist or generalist. Should South Africa opt for a broadbased literacy programme which places the greater part of resources into four of six years of primary schooling or should an early streaming of ability and talent take place leading to highly elitist narrow system. At present we appear to fall between the two approaches and failing in both.

Education has considerable implications for rapid economic growth. Here the debate hinges on capital deepening/capital widening issue. Should the growth goal to create more jobs for more people (expand inputs) or should emphasis fall rather on raising the productivity of people currently employed (investment in capital equipment to make each worker more productive)?

Paralleling this discussion is the debate about resource allocation and income distribution. Should more equitable income distribution take precedence over concentrations of savings in fewer hands? South Africa's economy is characterized by concentrations of capital and ownership by oligopolies (the insurance companies, the mining houses, the banks, the pension funds). Concentrations of wealth income, purchasing power and the monopsonistic behavior in purchasing labour has itself restricted and constricted the market and limited competition. Is this desirable or undesirable for economic growth and what are the future policy implications of this situation? The choice reduces to one between concentrations of income in the hands of corporations or individuals with a high propensity to save and hence invest or alternatively an attempt to expand the market by broadening the consumption base.

Economic dualism is another keenly debated question. Dualism was originally said to exist when two seeming insulated sectors of the economy, a pre-modern subsistence agricultural sector and a modern manufacturing/industrial sector develop a symbiotic relationship in which the industrial sector is able to maintain its growth rate because it is able to draw on the agricultural sector for labour. Essentially the discussion is about the terms of trade between the two sectors and whilst orthodox economists view the relationship as a transitory one whereby the very nature of the development process will change the relationship between the two sectors. The "underdevelopment thesis" holds that the capitalist core economy entrenches its position and

grows because it is able to manipulate a regeneration of labour supplies from the subsistence sector, maintaining the terms of trade in its favour. Both theories are open to the criticism that too heavy an emphasis is being placed on labour as "the" key factor of production and the assumption of relative isolation of the two sectors. It has been noted that dualism has been a characteristic of other economies. For example in Japan an initial nineteenth century dualism between sectors, became by the inter-war period an intra-industrial dualism. It has been argued that this very different type of dualism has been a factor in post-war economic growth as it was possible for resources to be transferred from the small company, lower cost, component manufacturing sector during period of rapid expansion but that this sector then bore the brunt of recession and contraction, insulating the large-company, higher cost corporate sector. This variation of the dualism model has been applied to the possible relationship between the formal and informal sector in South Africa with significant policy implications.

Balanced versus unbalanced growth is contentious because it is difficult to provide "proof" as to the "best" path to growth. In an ideal world balanced and even rates of growth is likely to give the smoothest ride to the economy. But historically the long-run growth path has been characterised by imbalance or as de Kiewiet put it economic advancement happened by "windfalls". Expansionary spurts often induced by exogenous factors, have been followed by sharp contracts. Business cycle theory, referred to above describes the experience of wave-like growth. It has been postulated, to use Japan once again as a comparative example, that unbalanced growth and the long-swing pattern of investment is a plausible explanation of the rapidity of that country's growth rate.

The international dimension is important because debate surrounds the advantages and disadvantages of being an "open" economy. Because of the heavy dependence on one export commodity, namely gold, the economy has traditionally been exposed to international economic currents and vicissitudes. Exchange rates, capital flows, trade balances, foreign exchange and gold reserves have all been highly volatile through this international dependency. On the other hand gains from trade and participation in the international economy have also been pro-growth. Debate though centres on the appropriate degree of integration into the world economy and whether it is possible to regulate that participation. In the sixties, the arms embargo initiated a process of military and strategic self-sufficiency, with mixed consequences for economic growth. Debate has followed too on import-replacement vs export promotion, which had obvious implications for development strategies.

**CONCLUSIONS:** The determination of the sources of economic growth in the S A economy as opposed to evidence of its manifestation is as complex here as it is in other economies. It is not possible to know with any certainty whatever that the growth rate attained was the highest possible. What we have in abundance is evidence of racial discrimination and we also have evidence that economic growth took place at different rates in different time periods. It is a much more complex problem to prove that economic growth was a consequence of discrimination or alternatively that economic growth was incompatible with racial discrimination. Government it is evident intervened in different sectors of the economy in totally contradictory ways; with ambivalent attitudes being expressed in opposing policies. Stated support for free enterprise and belief in

the efficacy of the market was not always implemented. Perhaps most fundamental of all were differing assumptions about property relationships. Any future government of South Africa will be faced with the challenge of re-defining property relationships. The key issue ought to be the attainment of maximum economic growth in anticipation that this goal will at the same time will result in rising per capita incomes and if not an equal distribution of output at least a situation where the next generation will be materially better off than the generation surveyed in this paper. Perhaps this requires too great a leap in faith for the new breed of politicians and the reality will be an on-going debate about wealth creation versus wealth distribution.

FOOTNOTES:

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2. Ibid, p 10.
3. Ibid., pgs 12-13.
4. Ibid., see Chapters 3,4,5.
5. Brian Kantor and David Rees: South African Economic Issues Cape Town, Juta & Co., 1982)
6. The Nedbank Group: South Africa and appraisal. M Dagut(Editor). (Johannesburg, 1st edition, 1977, 2nd edition 1983).
7. See concise discussion of Economic Growth through time in J D Gould: Economic Growth in History (Methuen, London, 1972)
8. S Kuznets, Six Lectures on Economic Growth (Illinois, 1959) and S Kuznets, Economic Growth and Structure (Heinemann, London, 1965)
9. W W Rostow, The Stages of Economic Growth, a non-communist manifesto. (Cambridge University Press, 1960)
10. A G Frank, Capitalism and Underdevelopment in Latin America, Historical Studies of Chile and Brazil (London, 1971)
11. Op cit., Kantor and Rees see chapter 1, "Sources of Economic Growth" by Brian Kantor and Henry Kenney.
12. D Hobart Houghton, "Economic Development 1865-1965" Chapter 1 in M Wilson and L Thompson, The Oxford History of South Africa, vol 2, South Africa 1870-1966. (Oxford, 1971) p 32.
13. Jill Natrass: The South African Economy its growth and change (Oxford University Press, Cape Town, 1981) p 25.
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15. Ibid., p 80-81.
16. Ibid., p 5
17. Kuznets., op cit, (1959) pp 20-21
18. Kuznets, ibid., (1959) p 25.
19. Nedbank Group. op cit., 2nd edition p 81.
20. Ibid., Nedbank Group . op cit., pgs 13-21.
21. Ibid., for a concise but balanced discussion of S Africa's resource endowments and comparisons of G N P with those of other African countries. see Nedbank Group., pgs 23-26.
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31. M Morishima, *Why Japan "Succeeded"?* (London 1986)
32. D Hobart Houghton, *op cit.*, pages 36-38.
33. Union Statistics for Fifty Years, Jubilee Issue, 1910-60 pgs C1-10
34. *Ibid.*, pages A 34-43.
35. D Hobart Houghton, *The South African Economy*. (Oxford University Press, Cape Town 1976) p. 274.
36. J Nattrass and R P C Brown, "Capital Intensity in South African Manufacturing" Black/White Income Gap project. Interim Research Report, no 4, Department of Economics, University of Natal, 1977.
37. J Nattrass, (*The South African Economy*) *op cit.*, p78-97
38. J Nattrass, *ibid.*, p 85.
39. Nedbank Group, *op cit.*, 2nd edition p 97. There are discrepancies in figures on foreign capital investment in the Dagut and Nattrass studies. Dagut points to the wide swing in foreign investment in South Africa, reflected in the balance of payments figures for individual years.
40. *Ibid.*, (Nedbank Group, 2nd ed.,) Section 10, The mobilization of Savings pgs 97-113.
41. Nattrass, *op cit.*, p 82
42. Nedbank Group, 2nd edition, *op cit.*, p 101.
43. Nedbank Group, 2nd edition., *ibid.*, pgs 69-78.
44. Nedbank Group, 2nd edition., *ibid.*, Section 5 on Population pgs 27-35; J Nattrass, (1977) *op cit.*, pgs 33-58; D Hobart Houghton (1976) *op cit.*, pgs 24-44.
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46. Jos Gerson: "The Unemployment Issue" in Brian Kantor and David Rees, *South African Economic Issues*, *op cit.*, chapter 7.
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48. Nedbank Group, 2nd edition, *op cit.*, p 83
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50. Chenery and Syrquin (1975) *op cit.*, pgs 60-63.
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