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**The Economy and Poverty in the
Twentieth Century in South Africa**

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The Economy and Poverty in the Twentieth Century in South Africa

1. Introduction

The South African economy experienced substantial growth and change over the course of the twentieth century. By the time of Union in 1910, gold-mining on the Witwatersrand had already and rapidly transformed what had been a peripheral agricultural economy into an industrialising economy with a strong minerals export sector. Gold attracted British capital and European immigrants, and made possible secondary industrialisation and four decades of sustained economic growth in the middle of the century. Between the early 1930s and early 1970s, the South African economy grew approximately ten-fold in real terms, and gross domestic product (GDP) per capita rose steadily (see Figure 1). At the end of the apartheid era, in 1994, South Africa accounted for almost exactly one-half of the total GDP of sub-Saharan Africa (UNDP, 1997: Table 25).

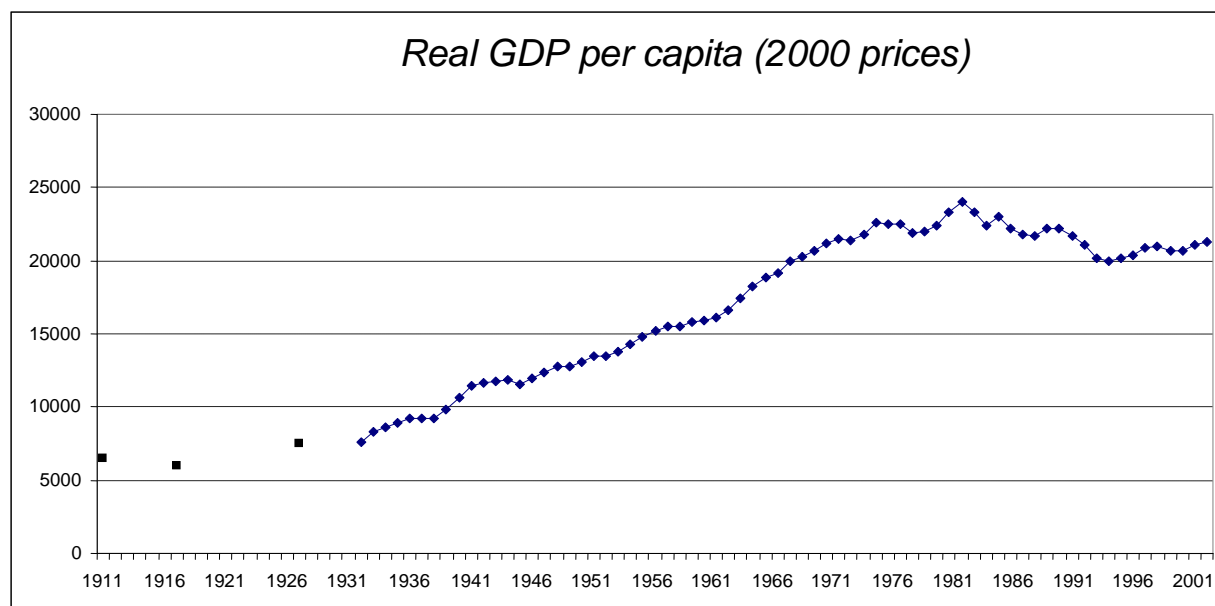


Figure 1: Real GDP per capita, 1932-2001.

Source: Statistics South Africa and the South African Reserve Bank (from 1932); data for 1911-12, 1917-18 and 1927-28 from Du Plessis (1950), rescaled on data for 1937-38.

The South African growth path followed the typical development trajectory, with the leading sector shifting from agriculture, to minerals, to manufacturing and then services. South Africa adopted many policies and built institutions not

dissimilar to those in Australia and elsewhere in the industrialising world. In other respects, however, South Africa was far from typical in two very visible respects. Firstly, alongside a set of policies and institutions that could be found elsewhere was a second set of unusually coercive and discriminatory policies and institutions. The former protected the incomes of mostly white workers, through labour-market institutions and the welfare state, whilst the latter helped to depress the wages paid to unskilled, African workers. This combination of policies and institutions not only ensured high inequality in terms of who got what in the short-term, but also shaped the growth path of the economy such that high inequality continued over time. Secondly, structural economic change was accompanied by a fundamental shift in the labour market, from chronic labour shortages to what was almost the highest measured unemployment rate in the world. Rising unemployment was a feature of most oil importing countries following the oil price hikes of the early 1970s. In South Africa, however, unemployment was exacerbated by government policies and institutions. These had destroyed the African peasantry, organised the labour market for the benefit of a small number of privileged ‘insiders’, and undermined employment growth. Under apartheid, the economy moved down an ever-more capital- and skill-intensive growth path, with the result that at the end of the century fewer than 50 percent of people of working age were actually working, whilst skilled labour shortages constrained the growth of both skilled and unskilled employment. Despite the transition to democracy in the 1990s, many of the institutional and structural features which shaped the apartheid growth path continue to shape the post-apartheid growth path in ways that perpetuate inequality and poverty into the twenty-first century.

In this chapter we analyse South African economic history in the Twentieth Century in terms of three periods, pointing to crucial changes in the economy and the roles therein played by the state, and the consequences of these for poverty. The first period, from Union in 1910 until 1932, was characterised by economic stagnation at the same time as an extraordinary building of state institutions to intervene in the economy. In this period the foundations were laid for the labour market and other institutions that were to shape subsequent economic development and the distribution of earnings. The second period, from 1933 to about 1945, saw rapid growth and structural change. This growth and change continued into the third, ‘apartheid’ period of 1945-1989. In the apartheid period, strong economic growth (at least until the 1970s) masked economic weakness: growth was slow relative to comparable economies as South Africa failed to take full advantage of either the benefits of gold-mining or the post-war global boom. Export growth was lacklustre, production

depended more and more on limited internal markets, and the profit rate fell. Growth faltered in the 1970s and stagnated in the 1980s.

The character of economic growth in South Africa meant that a minority of South Africans enjoyed very substantial benefits, whilst the rest of the population enjoyed much more modest benefits, and no benefits at all trickled down to some people. Poverty persisted despite growth into the second half of the century because poor people were dispossessed of access to land and, from the 1970s, experienced chronic unemployment. Economic growth without commensurate job creation became the primary, immediate cause of poverty and inequality in the distribution of income, explaining why poverty in South Africa remained higher than in most other economies with similar GDP per capita (and even some much poorer countries). In short, the record of the South African economy across the Twentieth Century was one of constrained growth and persistent poverty although the key drivers of that poverty shifted over time from overt racial discrimination to more class-based dynamics, notably the growing gap between the employed and the unemployed (Seekings and Nattrass, 2005).

Much of this simultaneous history of growth and failure can be traced to the patterns of state intervention in the economy. South Africa had certain advantages, in terms of minerals, harbours and climate, but growth was constrained by the absence of a supply of cheap labour and because settlers of European origin expected high wages and a racial hierarchy. From the outset the state played a major and central role in almost every aspect of the economy in response to these constraints. In some respects, public policy served to facilitate profitability and economic growth, albeit often weakly. As Marxist scholars argued, the state played a major role in ensuring a supply of 'cheap', largely unskilled African labour to some economic sectors, notably farms and (to a lesser extent) mines. Bonner, Delius and Posel (1993: 4) conclude that 'the particular path of industrialization in South Africa is attributable in large measure to an abundant supply of disenfranchised, low-wage, unskilled black labour'. 'Cheap' (African) labour was, however, only one half of the story. The state also implemented policies and established institutions designed to ensure that its white citizens enjoyed a 'civilised' standard of living, through a combination of high earnings, protected employment and a welfare state. The commitment to maintaining white citizens' standard of living at a level commensurate with those in the very much wealthier economies of Australia and Britain shaped both the path and pace of economic growth and change. Racial discrimination and coercion largely excluded unskilled workers and African people generally from the institutional framework that fostered and

protected privilege. When, in the later apartheid period, African workers pushed their way inside the edifice of wage-raising institutions, they encouraged employers to shift more towards skill- and capital-intensive production, thereby limiting even further the growth of unskilled jobs and contributing to the perpetuation of unemployment, poverty and inequality.

2. Economic stagnation, 1910-32

South Africa was still, at the time of Union, a sparsely-populated, predominantly arid country, with a largely agrarian society, although with crucially important pockets of extraordinary industrial activity. Johannesburg and the Witwatersrand, and to a lesser extent Cape Town also, seemed to locals to be booming, but the entire Witwatersrand had a population of only half a million people in 1921. Three quarters of the country's almost six million people lived in the countryside. Whilst deep poverty was probably generally limited to episodes of drought or disease, rural prosperity was limited to specific areas producing for lucrative export markets or the small but growing domestic urban and industrial markets. Indeed, 'poor whites' comprised a substantial minority of the white population: unskilled and unable to compete even with African farmers disadvantaged by inferior access to capital and markets, they lived in poverty in the countryside or migrated to the towns in a desperate search for employment. South African agricultural exports were not insignificant. Exports of wool, ostrich feathers and maize, as well as sugar cane from the 1920s, resulted in pockets of rural affluence – but agriculture was never going to transform the South African economy. That was the historical task of gold mining.

In 1911, agriculture accounted for 22 percent of South African national income, less than the 27 percent accounted for by mining, and barely more than gold-mining alone (Feinstein, 2005: 129). The gold mines of the Witwatersrand spread out in a crescent across the Southern Transvaal from Klerksdorp in the south-west through the West Rand, Johannesburg and East Rand, to Leslie in the south-east. Both the dollar price of gold and the exchange rate were fixed, which meant that the rand price of gold remained stable even whilst other commodity prices fluctuated erratically. Gold production had plummeted during the South African war but recovered quickly thereafter. In 1910 South Africa produced a third of world gold output, and this had risen to over half by 1930 (Official Year Book, 1934/5: 519). Fewer workers were employed in mines than on farms, but the mines served to stimulate growth in many other sectors (notably coal, timber, food and transport), and gold accounted for more than one half, by

value, of all exports from the Union. The gold mines, producing a product for which demand was unlimited at its fixed price, were the ‘power-house’ of economic development, enabling South Africa ‘to break free from the constraints which had for so long held back its economic development’ (Feinstein, 2005: 109).

The South African economy had grown rapidly in the late Nineteenth and early Twentieth Centuries, notwithstanding the disruption of the South African war, because of the combination of rapidly expanding gold production and a growing world economy. It was primarily gold which pushed economic growth in South Africa ahead of most colonies or former colonies. In terms of GDP per capita (taking into account purchasing power), however, not even gold had raised South Africa to the level of countries on the European periphery (such as Spain, Italy or Ireland, although its GDP per capita was higher than Portugal’s), and it lagged far behind other settler societies such as Australia, New Zealand, Canada, and Argentina (Maddison, 2001).

Gold-mining was the engine of the economy, but it was an engine that required constant assistance from the state. The ever greater depth from which gold was mined on the Witwatersrand meant that huge investments of capital were needed to drive mines deep underground, and to extract the gold from the ore once the ore had been brought to the surface. Labour was needed to hack or blast underground, and then to bring the generally low-grade ore to the surface. Frankel’s thorough analysis of rates of return on investments in South African gold-mining in the period up to 1932 showed that the overall net rate of return of 4.1 percent p.a. (including capital gains) was broadly commensurate with rates earned on alternative investments elsewhere in the world (Frankel, 1967). Foreign and domestic investors would not have invested in South African gold-mining if profitability not been underpinned by the only cost component which could be controlled: unskilled, black labour. This was well known at the time. The 1934-35 *Union Year Book* notes that ‘It is generally admitted that the prosperity of South African trade and industry depends to a very great extent on an adequate supply of relatively cheap, unskilled non-European labour’ (245; see also the 1926 Mills Report, discussed below). Feinstein calculated that doubling the very low wages paid to African workers would have reduced dividends and taxes by almost two-thirds, concluding that ‘higher wages for black miners were simply not consistent with minimum levels of profitability’ (Feinstein, 2005: 110-11). Crush, Jeeves and Yudelman concur: Without ‘large numbers of low-wage, unskilled migrant miners ... there would never have been a deep-level gold mining industry in South Africa’. Production would have been

limited to ‘pecking away at the surface outcrops’, leaving untouched the deep-lying reefs (Crush *et al.*, 1991: 1).

The mines could have raised wages for African workers if they had been able to reduce the wage bill of their white workers. The ratio of the cash earnings of white workers to the value of payments in cash and kind to African workers peaked at about twelve to one in 1921, and was about ten to one for the rest of the interwar period (Wilson, 1972: 66). The minority of white workers consistently received more, and sometimes substantially more, than the large majority of African workers. Unsurprisingly, the mines sought to replace expensive white with cheaper workers, including both Chinese labour in 1906-10) and African workers, provoking industrial protest, violent rebellion (in the 1922 Rand Revolt), and political intervention. Given their fiscal and general economic dependence on gold-mining, successive governments were wary of raising further production costs on the mines (Yudelman, 1983), and therefore looked to other sectors to employ increased numbers of white workers at appropriately high wages; but the state did not allow the mining industry to change significantly its cost structure by employing African workers in semi-skilled or skilled positions.

The economics of gold-mining encouraged the emergence of large mining-finance houses that could raise the massive capital necessary for opening mines as well as operate them thereafter. In 1887 Rhodes and his partner Rudd paved the way with the establishment of Gold Fields of South Africa (which later became Consolidated Gold Fields). Registered in London, the company served as a vehicle for raising British capital. Other houses were established by the Albu family (which later grew into General Mining), Eckstein (which became Rand Mines), Wernher and Beit (which grew into Central Mining), Goerz (which became the Union Corporation), and Barnato (Johannesburg Consolidated Investments or JCI). These six mining and finance houses dominated the industry. Given the fixed prices of gold, there was little reason for them to compete, and many reasons for them to collude – which they did, through the Chamber of Mines, established in 1889. The Chamber organized the recruitment of unskilled labour from across Southern Africa, and set the ‘maximum average’ wages that mines were allowed to pay African mine-workers.

In the 1910s, gold mining expanded into the Far East Rand, which was the turf of Ernest Oppenheimer and the Anglo American Corporation, formed in 1917 with British and American funding. By 1919 the eleven mines on the Far East Rand were generating more than twice as much profit as the forty-odd mines

along the rest of the Witwatersrand. Although Anglo-American was the most profitable, Rand Mines remained the largest of the mining and finance houses in the mid-1930s, in terms of gold production, employment and number of mines (Wilson, 1972: 24). At much the same time as it emerged as a major player in gold, Anglo American began to expand aggressively in the diamond industry, in direct competition with De Beers. Using both political contacts inside the South African state and its access to foreign funding, Anglo American bought massive diamond mining companies in Namibia. In the 1920s, it expanded rapidly in Angola, the Congo, West Africa, British Guiana and, within South Africa, in Namaqualand and Lichtenburg. Finally, in 1929, Oppenheimer and Anglo American took over De Beers (Innes, 1984).

Whilst this was a period of flux in the ownership and control of mines, it was not a period of growth for either the gold mining industry in particular or the economy as a whole. The volume and value of gold production and employment remained broadly stable through the 1910s and 1920s (Feinstein, 2005: 105; Crush *et al.*, 1991: Table A.4). The South African economy grew in current prices, but there were large fluctuations in prices (and inconsistencies in how these were measured) and it is therefore difficult to calculate a reliable *real* growth rate. Indeed, the South African state only began to collect systematic data on prices in 1919. The prices of agricultural exports, such as wool (Houghton, 1971: 24), were especially volatile. What is clear is that the South African economy experienced two sharp recessions, in the early 1920s and then during the first part of the Great Depression (approximately 1929-32), with a short period of growth in the mid-1920s and sustained growth from 1933 (Du Plessis, 1950). Depending on the choice of price data, real GDP per capita between 1911 and 1932 probably stagnated, perhaps rose marginally, but may even have declined. Figure 1 does not show a series for the period before 1932, but shows estimates for three years, as calculated by Frankel (and reported by Du Plessis, 1950).¹ Data on the wages paid to white workers in the diamond

¹ Du Plessis (1950) reports estimates for selected years between 1911-12 and 1948-49, for national income per capita, in 1938 prices. We have rescaled the pre-1932 estimates to fit the 1938 estimate from the Statistics South Africa and SARB series. Houghton (1971) suggests that it was only in 1933 or 1934 that real GDP per capita re-attained its 1920 level, before accelerating. Feinstein fudges his analysis of growth, probably because of this unacknowledged uncertainty over prices. Drawing on Maddison (2001), he discusses the 1913-50 period as a whole (2005: 5-7), even though it really comprised two distinct periods, of fluctuating stagnation (to 1932) followed by rapid growth (thereafter). Feinstein emphasises that South Africa 'escaped most of the adverse effects of the depression' (2005: 7), but this does not mean it escaped the adverse effects altogether. Uncertainty over prices might also mean that Maddison's estimates for real GDP per capita in 1913 exaggerate the extent of South Africa's relative prosperity.

industry suggests that real wages rose minimally between 1910 and 1932. In the building industry, real wages rose by about 10 percent over this period (Year Book 1934-35: 240, 243).

Economic growth may have been muted during the 1920s, but the economy did not suffer as adversely during the Great Depression as most other major economies. The demand for most agricultural exports and diamonds fell sharply, but the demand for gold was unaffected. Most farmers and South African manufacturers were producing for the local rather than the export market and were therefore partly cushioned from the global crisis. Retrenchments in manufacturing were largely limited to African workers, so that the main effects of the depression were felt in the reserves. Moreover, public works programmes were established to employ unemployed white men (and, to a much lesser extent, coloured men). By mid-1933, perhaps as many as one in twelve white male workers was employed on a public or subsidised works programme.

3. Building a modern, economic state

The 1910s and 1920s might have been a period of general economic stagnation, but they saw a remarkable process of state-building as the South African state acquired a wide range of economic roles. In South Africa, as in Britain and the other British dominions, the state moved away from the laissez-faire liberalism of the Nineteenth Century to the more interventionist and regulatory mode associated with the 'new liberalism' (or, in parts of Europe, social democracy). The state's concern with economic management was evident in that no fewer than nine out of thirteen Union government departments covered broadly economic topics, i.e. Finance, Agriculture, Lands, Mines, Commerce and Industries (merged with Mines as Mines and Industries from 1912 to 1933), Education, Posts and Telegraphs, Railways and Harbours, and Public Works.² Over the following twenty years, the state acquired the capacity to intervene in these and other areas of the economy. In terms of its fiscal capability, its capacity to collect and use statistics, its strategic interventions in industrial development and social welfare, and perhaps above all its interventions in wage determination and the regulation of employment, the South African state adopted the form of the modern economic state, empowering it in its dealings with the powerful capitalist elites in gold-mining and other sectors.

² The other four departments were Defence, Interior, Justice, and Native Affairs, the last of which, especially, had important economic functions.

The new state had an almost insatiable thirst for statistics, especially economic statistics. The 1914 Statistics Act gave statutory authority to collect statistics to a central statistical office, accountable to the Minister of the Interior, who would be advised by a Statistical Council. The purpose, as spelt out in the Act's subtitle, was 'to provide for the collection of statistics relating to agricultural and to industrial, commercial, shopping, fishing and other business undertakings and other matters in the Union'. The implementation of the Act was delayed by the war, but in 1918 the new Office of Census and Statistics produced its first *Year Book* (following the Australian example). The *Year Book* includes extraordinarily detailed data on almost every aspect of life affecting the country's white population, and very little on the coloured, Indian or African populations. The new state also began counting just about everything that could be counted. By 1919 it had already conducted censuses of manufacturing industries, agricultural and pastoral production, rents, the cost of living, wages, and the working hours and conditions.

The obsession with expertise extended to the appointment of commissions of enquiry into economic matters (as the British state had long been doing). These included a series of commissions concerned primarily with the incomes of white South Africans. In 1913, amidst bitter industrial conflict, the government appointed an Economic Commission, which reported in 1914. Two years later, another commission examined poor relief. A Cost of Living Commission produced five reports between 1918 and 1920. This was followed by an Unemployment Commission (1920) and the Economic and Wage Commission of 1925-26. Welfare reforms were examined by a Commission on Old Age Pensions and National Insurance, in three reports (1927-29). The onset of the Great Depression led to a further flurry of enquiries: an Inter-Departmental Committee on the Labour Resources of the Union (1930), an Unemployment Investigation Committee (1932), a Native Economic Commission (1932) and a Provincial Committee of Inquiry into Social and Charitable Work on the Witwatersrand (1934). In 1934-35, the country's labour legislation was re-examined by an Industrial Legislation Commission. Each of these commissions collated information and statistics, held hearings, and recommended new government programmes and initiatives.

The new state needed additional resources. Its initial concern was with the consolidation of the 'provincial' fiscal systems which relied on profits from the state-owned and operated railways, company taxation of gold mines (in the Transvaal) and general income taxes in the Cape Colony and Natal. The 1914 Income Tax Act introduced a Union-wide progressive income tax which was supplemented in 1916 with a super-tax on the very rich 'By the end of the First

World War', Lieberman writes, 'the income tax surpassed customs duties as the single most important source of state revenue' (2003: 128). The state continued to expand its fiscal capacity to tax all sources of income after the war. Income taxes (excluding taxes on gold mining) and property taxes (i.e. transfer and estate duties) together rose from almost nothing in 1910 to about 2 percent of GDP by 1920. A Land and Agricultural Bank was established in 1912, to provide medium- and long-term loans to farmers. The establishment in 1921 of the South African Reserve Bank – the first in the British Empire outside of London – added to the government's capacity to mobilise and manage financial resources (Ally, 1994). By the early 1920s, the South African state had thus become, fiscally and monetarily, very much a modern state.

One conspicuous absence from the set of Union government departments was a dedicated Department of Labour. The government declined to appoint a Minister of Labour despite being pressed to do so by Members of Parliament invoking the New Zealand precedent.³ Labour matters were run by – and labour legislation drafted by – other departments. This changed dramatically in 1924, when the Pact Government (comprising the Labour and Nationalist parties) came to power in the aftermath of the Rand Revolt. The government established the first Department of Labour. Within a year its staff had grown to 154, including the former director of census (indicating the importance of statistics for the department's regulatory work) and notable trade unionists to its inspectorate (Simons and Simons, 1983: 328)

The impetus to this dimension of state-building was the militancy of immigrant – mostly English and Scottish – white workers on the Witwatersrand, but the context was the much more general shift in thinking about the state's role in the economy. As even the relatively pro-employer members of the Economic and Wages Commission recognized in 1926 with respect to the role of the state in regulating wages, there had been 'a great change in the attitude of the public' from liberal *laissez-faire* to direct state intervention: 'every English-speaking country, following the precedent of the Australasian States, has passed legislation providing in certain circumstances for the fixing of wages under Statute', with the objects of preventing strikes and lock-outs and eliminating 'excessively low rates of wages' (South Africa, 1926: 35). A wave of major strikes by white workers in 1913-14 led to the 1914 Economic Commission recommending that the state institutionalize 'white' trade unions and incorporate the semi-skilled and skilled working classes through recognition, material concessions, and negotiated procedures for dealing with industrial disputes. The 1918 Factories Act regulated the hours and conditions of employment, the use of

³ Hansard 15 Nov 1910, col.89.

machinery and the prevention of accidents. The 1918 Regulation of Wages, Apprentices and Improvers Act regulated the employment of white women and young men; this was supplemented by the 1921 Juveniles Act and 1922 Apprenticeship Act. In 1924, the South African Party government enacted an Industrial Conciliation Act that provided for the registration and regulation of trade unions and employers' associations, and for collective bargaining between unions and employers' associations in industrial councils (renamed bargaining councils in the post-apartheid period). Industrial councils could determine wages, benefits, hours and other conditions of employment (see Lever, 1978). The accession to power of the union-backed Labour Party, through the Pact Government, led to a flurry of pro-labour legislation. The 1925 Wage Act provided for the establishment of a Wage Board, which could determine wage rates and employment conditions for workers not covered by industrial council agreements. The 1926 Mines and Works Act established a clear colour bar on the mines. An amendment to the Industrial Conciliation Act, in 1929-30, provided for the extension of agreements to apply to all employers and employees in the industry and area specified, i.e. not just the actual employers and employees represented in the negotiations in the industrial council. In the course of little more than ten years, the state had built the industrial institutions that characterized the nascent social democracies of northern Europe and Australasia.

With regard to African workers, however, the state retained an essentially repressive approach. The 1923 Natives (Urban Areas) Act provided for the registration and control of employment contracts, and regulated migration into and residence in towns on the basis of the 'pass'. In addition, colonial-era Masters and Servants laws and the 1911 Native Labour Regulation Act served, *inter alia*, to criminalize breaches of employment contracts by African workers (for example, through desertion). Trade unions representing African workers were not recognized, and were not allowed to participate in centralized bargaining. When the Industrial and Commercial Workers' Union (ICU) emerged in the late 1920s, the Pact Government resorted to mild repression rather than incorporation. Even with respect to African workers, however, the Department of Labour began to contemplate an incorporative strategy, if only to reduce the incentive to employers to replace expensive white workers with cheap African workers (Duncan, 1995).

The racialised character of industrial institutions was reflected also in the welfare state that successive governments began to build in the 1920s and early 1930s. Just as the state accepted that wage-setting for white workers could not be left to the market alone, so it accepted that the incomes of poor, non-working

white people needed to be supplemented by the state. Prior to the 1920s, poor white people relied primarily on kin or the churches, with only a small minority of workers contributing to insurance schemes and state provision limited to poor relief on the British model (Bottomley, 1990; Iliffe, 1987: 115-23). Workers – generally the more skilled workers – in some sectors had secured industry- or employer-specific insurance against disability or poor health, and provision for old-age. The 1924 Industrial Conciliation Act – as subsequently amended – provided further scope for the extension of insurance. In the industrial councils, unions and employers could bargain not only over wages, but also over benefits such as pension schemes. By providing for the extension of agreements to the entire industry (under the 1929-30 amendments), the state could ensure that whole sectors were covered by contributory, but notionally private, insurance schemes, or what might be called quasi-social insurance. The Industrial Conciliation Act thus provided the first pillar of South Africa's welfare state.

The second pillar of the welfare state entailed social assistance programmes. The 1928 Old Age Pensions Act provided means-tested, non-contributory old age pensions, for white and coloured people only, broadly as recommended by the multi-party Pienaar Commission on Old Age Pensions and National Insurance (Seekings, 2007). This prompted a short-lived conservative backlash against welfare state-building, but in the mid-1930s and early 1940s the state's responsibilities were expanded to cover further categories of 'deserving' poor: the blind, people suffering from other disabilities, poor families with children, and unemployed workers. The improved public finances resulting from the higher gold price made it easier for the state to respond to the challenges of drought and depression, whilst party political competition provided some impetus (Seekings, 2008). The government also organised the construction of housing and controlled rents for white workers (Parnell, 1989). In 1937, the newly appointed professor of sociology at the University of the Witwatersrand proclaimed in an inaugural lecture, exaggerating only somewhat, that 'provision for [the] European population' in South Africa was 'scarcely less complete than that of Great Britain' (Gray, 1937: 270).

State intervention in the economy extended also to industrial policy. In sector after sector, the state stepped in when private investors appeared unable or unwilling to commit the necessary capital. The Union government inherited and extended responsibility for the railways, in contrast to both North and Latin America where private railway companies built and operated the railways.⁴

⁴ The lines from the Cape ports and Durban to the Witwatersrand were built and operated by the Cape and Natal colonial governments respectively. The line from Delagoa Bay to the Witwatersrand was operated by a private company, but it was taken over by the state after the

Almost 8,000 miles of railways were laid between 1890 and 1919 (Houghton, 1971: 19-20; Solomon, 1983: 100-11), laying the basis for the spectacular expansion of the Witwatersrand as the industrial hub of Southern Africa. In the 1920s, South African Railways focused primarily on improving the existing track and then on electrification, enabling the railways to carry much more traffic. One major beneficiary was the Natal coal industry, which was able to supply coal to both new power-stations and ports (Heydenrych and du Plooy, 1994). In the 1920s, it established the Electricity Supply Commission (ESCOM) and Iron and Steel Industrial Corporation (ISCOR), again in large part in response to the failure of private firms to raise sufficient capital (Christie, 1984; Cross, 1993; Clark, 1994). Whilst the state was willing to set up new parastatal industries, it did not nationalise the mining houses. Its preferred mode of intervention was through regulation, including of the mining industry (especially after 1915).

The state also sought to promote the growth of both manufacturing and commercial agriculture. Prior to the 1920s, manufacturing was largely limited to light industry producing food and beverages, and to a lesser extent textiles, clothing and shoes. A growing chemical industry supplied the mines. Prior to 1924, however, the state resisted calls for tariff protection, defending free trade. A Board of Trade and Industry was set up in 1921. The 1925 Customs Tariff and Excise Duties Amendment Act marked a shift by the Pact Government (Kaplan, 1976; Archer, 1989; Martin, 1990). Higher and broader tariffs led to the tripling of manufacturing output between 1924/25 and 1938/39, despite the depression, as small manufacturing workshops were replaced by larger, more capital-intensive factories. Non-mining capitalist interests were certainly advanced (Kaplan, 1976), but the Pact Government seems to have acted with considerable autonomy (Martin, 1990), and seems to have been motivated strongly by the goal of increasing employment opportunities for white workers outside of the mines. Tariffs helped employers cope with the higher cost of employing white labour, and were thus a political necessity even if they resulted in a degree of inefficiency. The state also sought to modernise agriculture through agricultural extension services, training, and irrigation projects, although with little obvious effect on the consistently sluggish growth of agricultural output. Manufacturing overtook agriculture in terms of value-added just before the outbreak of the Second World War (and overtook mining soon after).

South African War. A few minor private railways continued to operate until the 1920s (Solomon, 1983).

The Union's industrial policies, like many other areas of public policy, reflected both a growing nationalist impulse and a concern to emulate other British dominions, notably Australia. Building a parastatal steel industry was especially attractive to the Pact Government because it promised to make South Africa more independent of the British capital that controlled the mines, and would enable South Africa to catch up with the other dominions which had already established their steel industries. Industrial policy also enabled the state to intervene to achieve social objectives. The Pact Government used its investments to promote employment and high wages for white workers. Indeed, the bill establishing ISCOR initially provided for direct control of ISCOR's labour policies by the cabinet, which initially imagined an all-white workforce (Clark, 1994; Cross, 1993). The railways served as an additional source of employment of white people, especially under the Pact Government.

4. Institutions and wages

In the period of economic stagnation lasting from Union to the gold-fuelled growth of the mid-1930s, the state built capacity to intervene in almost every facet of the economy. It operated the transport system, provided power, ran the steel industry and set tariffs to nurture other manufacturing. It collated statistics, raised new taxes, and managed the currency. It intervened in the labour, housing and agricultural produce markets. It provided income support through a nascent welfare state. And, of course, it acted to maintain an adequate supply of cheap, African labour to mines and farms. The state did these things not simply to promote economic growth, or to assist capitalists in earning profits. The state sought also to structure the distribution of earnings and incomes in society, raising the earnings and incomes of a privileged, and generally racially-defined, minority. In establishing institutions that maintained wages and incomes at 'civilised', 'fair' or 'European' levels, it constructed a high-wage institutional framework that would endure through the apartheid era and into post-apartheid South Africa, with enormous consequences for poverty and inequality.

In the early decades of the Twentieth Century, and for diverse reasons, immigrant white workers, poor Afrikaans workers abandoning the countryside, and those members of the political or economic elite who were either sympathetic or racist or both, all sought to maintain the standard of living for white South Africans at a level commensurate with those in Australia and New Zealand, and as high if not higher than in Britain. The high wages prevalent in Britain, Australia and New Zealand – high, that is, relative to other countries – were replicated in South Africa, albeit only for white workers. In almost every

area of public policy, Australia and New Zealand provided role models for South African policy makers and interest groups. From the 1890s, Australia and New Zealand adopted legislation providing for settling industrial disputes, progressive income taxation, tariff protection of domestic industries, a Ministry of Labour, restrictions on non-European immigration, and, first in New Zealand and later in Australia, old-age pensions and other welfare reforms. Workers with experience in Australia held prominent positions in the South African labour movement. Intellectuals, bureaucrats and politicians alike paid careful attention to their Australasian counterparts.

In 1913, amidst escalating industrial conflict, the government appointed the Chapman (Economic) Commission to investigate wages, the cost of living, and costs of production. The commission found that artisans earned much higher wages in South Africa than in Britain. It also found that the cost of living for (white) working-class South Africans was much higher than in Australia, Britain and elsewhere – in part because expenses such as a domestic worker and a large house were deemed to be needs in South Africa but would be considered luxuries in Australia or Britain. The Commission reported that ‘social convention’ required that white men and women enjoy a standard of living superior to that of ‘non-white’ people. In terms of actual purchasing power, South African artisans were better paid than their British, European or American counterparts (South Africa, 1914).

The Chapman Commission adopted a broadly pro-employer perspective, and opposed minimum wage-setting for workers in general and the establishment of wage boards in particular. The Commission was opposed to the colour bar and argued that a more flexible labour-market was needed to reduce excessive skill differentials and contain escalating production costs, which would otherwise result in retrenchment and unemployment. It was not entirely opposed to regulation, however, recommending that trade unions be recognized, working conditions be regulated, and voluntary conciliation boards be established for industrial disputes. The government did indeed introduce a battery of such regulatory legislation.

Just over ten years later, in the aftermath of the Rand Revolt, the government shifted the emphasis of policy towards direct intervention in wage determination. In the 1924 elections, the National and Labour parties denounced the incumbent government for promoting ‘big financial’ interests and jeopardizing the future of (white) South Africans ‘as a civilised people’. National Party leader Barry Hertzog emphasized the threat to South Africa remaining ‘a white man’s country’, and called for a *skeidsmuur* (literally, a

dividing wall) between ‘civilized’ and ‘uncivilized’ labour. The resulting Pact Government, with Hertzog as Prime Minister, quickly committed itself to a ‘Civilized Labour Policy’ as part of its segregationist programme.

The Prime Minister desires it to be understood by all Departments of State that it has been decided as a matter of definite policy that, wherever practicable, civilized labour shall be substituted in all employment by the Government for that which may be classified as uncivilized. Civilized labour is to be considered as the labour rendered by persons, whose standard of living conforms to the standard generally recognized as tolerable from the usual European standpoint. Uncivilised labour is to be regarded as the labour rendered by persons whose aim is restricted to the bare requirements of the necessities of life as understood among barbarous and undeveloped peoples.’ (Prime Minister’s Circular no.5, quoted in *Official Year Book*, v.9: 203).

The policy applied initially to government departments only, and was later extended to manufacturing (but not mining, which even the Pact Government treated with great caution – Yudelman, 1983). The Government also adopted a ‘fair wage policy’ which required government contractors to pay ‘fair wages’ to their white employees.

The following year, the Pact Government appointed an Economic and Wage Commission with a brief to investigate the effects of different wage and labour policies on employment ‘at a wage compatible with a civilized standard of life’. The six commissioners were unable to agree on their findings, and divided into two groups of three, each group authoring a different report. The contrast between the two reports reveals two very different approaches to the organisation of production in South Africa, with profound consequences for poverty and inequality in both the short- and (through the effects of the cost structure on the economic growth path) long-term. The debate between these competing approaches continued throughout the rest of the century.

The report of the three members headed by the chairperson of the Commission, Mills, found that skilled (white) workers were earning high wages, whilst unskilled (African) workers were being paid low wages, in comparison to their counterparts in Britain and Australia. The ratio of skilled to unskilled workers’ wages in construction or engineering on the Witwatersrand was about 5:1, compared to (at most) 1.5:1 in Britain (South Africa, 1926: 19). In London, a bricklayer was paid one-third more than a labourer in construction, and the difference was even less in Melbourne or Sydney. On the Witwatersrand, bricklayers were paid almost double their counterparts in London, and more even than in the Australian cities, whilst African labourers were paid less than

one-third of what their British and Australian counterparts were paid (*ibid*: 24-25). The Mills Report recorded that the cost of living on the Witwatersrand was higher than in London, but even taking this into account, real wages for skilled white workers were about one-third higher than in London, and were very much higher than in most parts of Europe. One of the mining companies submitted to the Commission that ‘the average white miner on the Rand is less skilful, does less effective work, and receives nearly double the pay’ of a Californian gold-miner (although the cost of living for married men was higher in Johannesburg than in California); much of the work done by white workers was supervisory, and the supervision often cost more than the work being supervised (*ibid*: 243).

The wages paid to skilled, white workers were very much higher than the wages paid to African workers, but the latter were not especially low in global terms. African labour was ‘cheap’ in comparison to unskilled labour in Britain, but was not cheap in comparison to other parts of the world. The low wages paid to African labourers on the Witwatersrand were much the same as the wages paid to labourers in Italy and some other parts of Europe (South Africa, 1926; Feinstein, 2005: 134). Alexander finds that African coal-miners were paid double what their counterparts in India earned in the 1930s; the South African mines were much more capital-intensive, and average labour productivity was between three and five times higher (Alexander, 2007). African labour was considered ‘cheap’ in South Africa because wages were low compared to the wages paid in Britain or to white workers in South Africa, not by broader global comparisons.

High wage-rates in South Africa were an issue because, as Mills *et al.* understood clearly, South Africa was not a correspondingly affluent country, despite the value of its gold-mining. ‘South Africa at present is not among the richest countries in the world... The aggregate capacity of industry to pay wages is of the same order of magnitude as that of Germany and Italy rather than of Australia or North America’ (*ibid*: 33). Skilled workers on the Witwatersrand could be paid high wages, Mills *et al.* argued, only because they comprised a small minority of the workforce, and did so ‘at the expense’ of low-paid African workers (*ibid*: 86-7). The Mills Report argued that reducing wage differentials would be good for productivity, but would require lower wages for skilled white workers as well as higher wages for the unskilled. Mills and his colleagues were opposed to protecting employment for white workers through either a colour bar or the imposition of high minimum wages across the board. They pointed out also that protected employment on the railways served to disguise the real costs,

because these could be passed onto either consumers (because the railways had a monopoly) or taxpayers (because they were state-owned) (*ibid*: 145-6).⁵

The other three members of the Commission, headed by Lucas, adopted a very different approach to assessing the wages paid to white workers. They expressed skepticism about international comparisons of wages (and prices), in part because, in their view, the average white worker in South Africa was more skilled than the average worker in (for example) London. But their primary arguments were that skilled white workers' wages had not risen in relation to the growth of national income and, drawing on the Australian precedent, that wages were insufficient for a family of five (or more). 'To maintain a white civilization in South Africa the white workers must receive a civilized wage' (*ibid*: 352). They complained about the large sums paid in dividends and interest to 'overseas capitalists' (*ibid*: 306) and about the high rents charged by local landlords. In their view, *all* workers (including African workers) should be paid higher wages, which (they suggested) would stimulate demand and hence economic growth.⁶ The employment on the mines of low-wage labour from outside the Union (especially from Mozambique) should be stopped because it depressed the wages paid to 'native' (i.e. African) workers. If unskilled wages were higher, then there would be more immigration of unskilled white workers, as there was into Australia or the USA. This would help to turn around the current situation of having 'a small minority of civilized Europeans among a vast majority of uncivilized natives' (*ibid*: 353). 'The immigration of civilized Europeans would strengthen European civilization in South Africa', they concluded; 'the importation of uncivilized non-Europeans will assist to swamp it' (*ibid*: 356). Logically, industry should be reorganized to employ a higher proportion of white workers. The implicit ideal was the creation of a new South Africa in the image of 'white' Australia, with low-waged African workers largely excluded from all urban and industrial occupations excepting domestic work.

The Mills Report was opposed to the extension of wage agreements to non-parties. The 1924 Industrial Conciliation Act allowed for agreements on wages reached between employers and unions in industrial councils to be extended to firms and workers who had not participated in the actual negotiations. The first

⁵ The Mills Report included a detailed discussion of the economics of gold-mining, and of the obstacles to expanding high-wage white employment. This may have informed the Pact Government's unwillingness to intervene in the mining industry.

⁶ High wages were also described as 'an incentive to more efficient management' (such that 'public wage regulation is in the interest of the better class of employers') and as a stimulant to higher productivity (*ibid*: 354).

two industrial councils established nationally were in the printing and building industries. Bargaining in these two councils led to a Printing and Newspaper Industry agreement that was imposed countrywide and a Building Trades agreement that imposed minima in selected rural districts. The Mills Report was sharply critical of this: 'Even in large centres – Bloemfontein and Kimberley – evidence was put before us to the effect that the gazetting of the new rates led to the dismissal of some workers and to evasion of the agreement', whilst 'it is manifestly unwise' to apply the same minimum wages to small towns (*ibid*: 57). The Lucas Report, however, was disparaging about the jobs lost when higher wages were imposed: these were coloured workers whose productivity was too low for the higher wages, and who were clearly dispensable in the noble cause of paying 'civilized' wages to 'civilized' workers (*ibid*: 290-1).

The perversity of the case for higher 'civilised' wages is clear when one considers the position of domestic workers. The Mills Report includes an extended discussion of the presumed need for 'civilised' labour to employ a domestic 'servant'. Indeed, provision for such a servant was integral to the notion of a 'fair wage' for civilized workers (*ibid*: 172-87). Yet, inevitably, the sum provided for in a 'fair wage' for white workers for the *cost* of a domestic servant (see Lucas Report, *ibid*: 332-3) certainly did not constitute a 'fair' *wage* for the servant himself (domestic work still being a largely male preserve), because of course the servant was an 'uncivilized' African or coloured person. In practice, the institutional apparatus of wage determination as demanded by Lucas *et al.* was fundamentally racist, deepened inequalities in earnings, and ensured that employers had a major incentive to acquiesce in the exclusion of African workers from the institutions that ensured high wages for 'insiders'.

The debates around wage-setting were mirrored by debates over the state's first, bold steps towards building a welfare state. The Pact Government's enthusiasm for old-age pensions – for insider white and coloured men and women – was in substantial part due to a concern to restore the racial income hierarchy. For the Pact Government, racial segregation entailed both excluding and repressing African people and elevating white people, including through 'civilized labour policies', land settlement policies in the countryside, and welfare reform. The political imperative was explained by an NP Member of Parliament, Dr. Stals, in August 1924. The 'poor white' problem, he said:

is a question which not only concerns the poor; it affects the whole white civilization of this country. It confronts us with the question whether we, the descendents of the staunch old pioneers, will maintain their civilisation and hand it over to our children... It may be asked whether there is poverty only in South Africa and whether other

countries do not suffer from the same thing. There are poor people everywhere, but the circumstances in South Africa are unique... In this country, there is a small number of whites against the natives, a few civilized people against uncivilised hordes, and for that reason it is so important that not a single white person should be allowed to go under... There is no greater problem than this, because the existence of the European civilisation in this country hinges on it.

The Pienaar Commission into welfare reform found that ‘Many aged and infirm people are living under conditions which are unworthy of a civilised community’ (South Africa, 1927: 10).

The Pact Government, influenced heavily by arguments such as those made by Lucas *et al.* in 1925, constructed a set of wage-setting and poverty-relieving institutions and policies that were focused on replicating British and Australian levels of ‘civilised’ earnings and incomes. In South African conditions, these could only be sustained if the majority of the population were systematically excluded from coverage. After the collapse of the Pact Government, government commissions emphasised more emphatically the inefficiencies arising from a system in which white workers were paid wages as high as, or higher than, their counterparts in high-wage economies (such as the USA, UK and Australia) whilst African workers were confined to unskilled occupations and were paid wages as low as their counterparts in lower-wage economies (across much of Europe, for example) (South Africa, 1935; see also *Year Book* v.17, 1934-35: 243; see also Feinstein, 2005: 132-5).

Whilst wage differentials were reduced during the post-depression boom, the notion of a high ‘civilised’ wage or income level proved intractable. When Batson conducted his pioneering work on poverty in Cape Town in 1938-40, he defined the poverty line in terms that reflected the racialised assumptions that predominated at the time. His poverty line entailed sufficient food to meet needs ‘taking into account the established food customs of the Western World’, and sufficient clothing to meet the ‘minimum compatible with health and conformity with Western customs’ (Batson, 1941: 1). This was, he emphasised, ‘the barest minimum upon which subsistence and health can be achieved under Western conditions’ (*ibid*). Housing posed a particular problem, given that racialised norms meant that poor white and even coloured people did *not* live in areas where the cost of housing was lowest. Batson’s way around this problem was to compare each household’s income *net* of actual housing costs to a poverty line defined exclusive of housing costs (*ibid*: 2). Similar allowance was made for the actual expenses incurred in transport to and from work. What this meant is that households might be deemed poor in part because they chose to spend more

money on housing than they might have done in a less segregated setting. In short, Batson set a poverty line that made some sense with respect to the standard of living expected by and for people like the (white) workers who had migrated from Britain to South African cities.

The state – even under the Pact Government – remained dependent on the gold-mining companies, and helped supply the mines with large numbers of unskilled African men to work for low wages (Jeeves, 1985; Yudelman, 1993; Crush, Jeeves and Yudelman, 1991). But the state, especially under the Pact Government, was also electorally and ideologically committed to the maintenance or improvement of white standards of living, and skilled, white workers were powerful enough to secure institutions through which they could advance or protect their interests, especially in the fast-growing manufacturing and service sectors. For white workers this was a period of remarkable achievement. The Labour Party not only entered government (in 1924), but union representatives also participated in the deliberations over the global regulation of work at the International Labour Conferences in Geneva. The price of success, however, was the oppression of African workers. Whilst poverty declined fast among white people, it persisted or even worsened among African people.

5. Poverty amidst stagnation

Through most of the twentieth century poverty was only regarded as a ‘problem’ insofar as it involved white people. ‘Poor whites’ had been identified as a ‘problem’ in the late nineteenth century (Bundy, 1986), but their conditions – and the causes of their poverty – were more fully documented in the early twentieth century (especially South Africa, 1926: 105-20, 334-50; Macmillan, 1930; the Carnegie Commission, 1932). The sub-division of small farms into unsustainably smaller and uncompetitive units drove unskilled white workers onto urban labour markets in which they were unable to compete with African workers. The erosion of support by kin for those who were unable to work on grounds of age, infirmity or ill-health, domestic workload or unemployment deepened vulnerability. If too many sank into ‘apathetic indigency’, living with or even below the ‘non-European majority’, then white people could not maintain their position as a ‘dominant race’ (in the words of the Transvaal Indigency Commission of 1908, quoted in Lewis, 1984: 25). The government responded primarily through racially-discriminatory job reservation and minimum wage-setting, aimed primarily at ensuring that white men of working age earned enough to support themselves and their dependents. During the Great

Depression, which coincided with drought on the South African platteland, the state operated massive public works programmes to prevent mass unemployment among white working-age men. In addition, the state provided direct financial assistance to people who were unable to work (due to age, disability or gender) and whose kin failed to support them.

The state's response to the 'poor white problem' was important because it framed subsequent debates about poverty in society as a whole. It became widely accepted in the early twentieth century that 'white poverty' required redress through systematic state interventions in, primarily, the labour market and welfare state. By the 1940s, the state had developed institutions and policies that had both the intent and effect of ensuring that one category of people (the 'white' population) maintained a minimum 'civilised' standard of living, in part so as to maintain a clear hierarchy between them and the rest of the population (i.e. African people especially), and which was dependent on this very same hierarchy. Both the elevated incomes deemed acceptable for 'insiders' and the callous disregard for the welfare of 'outsiders' were to remain core features of public institutions and policy under and even after apartheid.

In relation to the poverty line implicit in the concept of the 'civilized' standard of living that applied to white South Africans, almost all African people were poor – precisely because civilized standards were set so as to ensure the maintenance of a clear racial income hierarchy. When means-tested old-age pensions were introduced for white people, both the value of the pension itself and the income limit used in the means-test were higher than the earnings of most African working people. When, approximately ten years later, Batson applied his poverty line to household income data from Cape Town, he found that only a small minority of white households were poor, compared to one half of coloured households and almost all African households (Batson, 1942; see also Davie, 2005: chapter 3).

Poverty among the African majority (or the coloured and Indian minorities) was, however, rarely acknowledged. As W.M. Macmillan noted in 1930, most white South Africans were 'amazingly ignorant of the true state of the Natives in their midst' (1930: 117). The 1904 Transvaal Labour Commission reported that 'the African native tribes are, for the most part, primitive pastoral or agricultural communities, who possess exceptional facilities for the regular and full supply of their animal wants, and whose standard of economic needs is extremely low ... The only pressing needs of a savage are those of food and sex, and the conditions of native life in Africa are such that these are as a rule easily supplied' (quoted in Davie, 2005: 53). Over time, these kinds of blatantly racist

statements gave way to the more subtle explanations characteristic of segregationist thought. The Native Economic Commission infamously reported in 1932 that:

... the poverty of individuals which occurs among Europeans is not common among Natives. Their communal system cares for all its people. Broadly speaking there is no starvation because each man will share his food with others. This is the explanation of so very little having been needed from public funds in the way of poor relief for Natives, despite the low standard of living of large numbers of them. ... Such poverty as exists, therefore, applies to the whole of the community among which it occurs... (South Africa, 1932: 142, para 998-9)

African people could be excluded from benefits under the 1937 Children's Act because 'under Native law it is the natural duty of the head of the kraal or guardian-at-law to support any minor belonging to his kraal or under his care'. Indeed, 'the granting of maintenance by the State will probably lead to an evasion of the responsibility resting upon the Natives under their own customs' (quoted in South Africa, 1940a: 64).

Even these sources acknowledged that these generalizations were not entirely valid. The Native Economic Commission noted that 'urban conditions are beginning to break down the communal traditions, and instances were quoted to us of Natives who found it necessary to hide what food they have, because sharing would tend to leave them without the necessities for their own subsistence'. The Commission added that 'many magistrates' reported a need for poor relief funds for poor black people in their areas (South Africa, 1932: 143). One member of the commission wrote a dissenting report in which he argued that poverty was widespread and worsening in many of the 'reserves', such that most men were compelled to migrate for wage employment. Other government inquiries agreed that poverty was worsening. The 1937 Page Committee, which investigated poor relief, agreed that 'the spirit of family and clan responsibilities which is ingrained in tribal custom' did serve to mitigate poverty, 'save in times of general distress, but it is evident that the ability if not the willingness of the kraal to maintain its helpless members is decreasing and that provision for these will have to be made on an increasing scale by the community in general' (meaning South African society as a whole) (South Africa, 1937a:15-16).

Natural disasters caused extraordinary distress but few deaths. In 1911, for example, drought beset the Pondoland districts of the Transkei. The following year, East Coast fever killed as many as three-quarters of the cattle, hampering

transport as well as ploughing. In the face of escalating grain prices, the state intervened to facilitate transport and the mines were (eventually) persuaded to increase the cash advance offered to newly-recruited mineworkers. On this occasion, as on most others when drought or pests caused famine, few adults actually starved (Beinart, 1982: 70-76; Wylie, 2001: 64-73). Similarly, during the devastating famine across much of the Eastern Cape during 1945-46, the Department of Public Health's officer in charge of nutrition reported after a series of visits to the affected areas that 'I saw no children dying of actual hunger or starvation', and concluded that 'it is more a question of chronic malnutrition or lack of proper and enough food than one of actual famine and starvation' (quoted in Wylie, 2001: 84). Such assessments belittled the suffering that existed on a wide scale, and excused the limited activities undertaken by the state. At the same time, they reflected an important truth: the consequences of drought were mitigated by continued remittances from migrant workers. Put another way, the factors that propelled as many as one in three adult men of working age to migrate routinely to the mines or other employment served to ensure that a cash income flowed into rural areas even as or when drought or pestilence reduced production.

Severe poverty remained exceptional because most African people *either* continued to have access to land *or* could take advantage of expanding opportunities for wage employment. Land was relatively plentiful given that the total population of South Africa at the beginning of the Twentieth Century was just one-tenth of its level at the century's end. African people might have owned little of the land, but they had access to a lot more as tenants or sharecroppers on land owned by white farmers. In the course of the century, this access was slowly but inexorably stifled, through a combination of ecological denudation, population growth, punitive and racist legislation including forced removals, and the changing economic interests of white landowners. In the mid-1920s, W.M. Macmillan found that people in Herschel district in the Eastern Cape were dependent on the earnings of migrant workers to purchase imported grain, and 'a huge proportion of the community' existed 'on the very lowest level of bare subsistence' (Macmillan, 1930: 185). Access to land worsened after the 1913 Natives' Land Act, which not only prohibited the purchase of land by African people outside of tightly demarcated areas, but also criminalized sharecropping. Although exemptions enabled labour tenancy to continue in some areas, and continued illegal sharecropping was tolerated in others, the Act marked an important tightening of the squeeze on successful African farmers, accelerating processes of deagrarianisation and proletarianisation. Sol Plaatjie's *Native Life in South Africa* documented the effects of the Act on hitherto prosperous African farmers in the Orange Free State and Cape Province (Plaatjie, 1916/2007).

As access to or the productivity of land declined, so access to employment became more and more important. Men migrated to work regardless of the weather and harvest precisely – and despite low wages, dangerous working conditions (especially down the mines) and separation from families – because smallholder agricultural production was almost never and nowhere sufficient to meet the needs of growing rural populations (Macmillan, 1930; Schapera, 1934). At the same time, however, the strong demand for unskilled labour meant that, for most of this period, severe poverty seems to have been limited to episodes of natural disaster. The demand for unskilled labour chronically exceeded the domestic supply, such that the goldmines recruited a large part of their workforce in southern Mozambique (and even further afield) and farmers resorted to child labour in response to labour shortages (Beinart and Delius, 1986: 36). Indeed, one of the reasons why farmers were often hostile to the state providing emergency relief in times of famine was that they thought that relief would stiffen workers' resolve not to work for the low wages offered on farms. Wylie quotes the leader of farmers in part of the Eastern Transvaal who, faced with a famine and state intervention, complained about the 'pusillanimous petting of the natives' and 'encouraging the natives in indolence and evasion of man's duty to labour' (quoted in Wylie, 2001: 76).

In these circumstances, the very poor were generally not people with access to employment, but rather people who were unable to work and who could no longer count on employed kin for support. In April 1933, one of the councillors in the Transkeian Bunga (i.e. assembly) urged that old age pensions should be extended to 'natives':

When a man is still young he is able to support himself. Sometimes when he gets old he has no one to support him. He has nothing, and he cannot even work with his hands. Then he lives a pitiful life. He cannot feed himself, he cannot plough. That is why Government is requested to grant pensions to aged Natives.⁷

The government did not heed this request. Poverty, in official eyes, was a matter only of civilised peoples unable to afford a civilised lifestyle.

6. Economic boom, 1933-1945

Whilst South Africa was not immune to the Great Depression, its economy recovered very rapidly and entered a period of extraordinary growth, even after

⁷ Councillor R.Duze (Umzimkulu), *Proceedings of the Transkeian Bunga*, 11th April, 1933, p.240-1.

war broke out in 1939. In only twelve years, between 1933 and the end of the Second World War in 1945, GDP per capita almost doubled in real terms (i.e. accounting for inflation). Manufacturing grew especially rapidly, in part due to increased government expenditure and planning, and in part to the relaxation of some of the racial restrictions in the labour market. Rising wages for African workers and the expansion of the welfare state to cover some African people meant that racial inequalities diminished.

Gold exports pulled the economy out of the depression with extraordinary speed in 1933. At the end of 1932, after costly prevarication, South Africa finally abandoned the gold standard, which led to the depreciation of the exchange rate. This combined with an increase in the global dollar price of gold in 1934 to raise considerably the local proceeds of gold sales. The sudden increase in the mines' revenues prompted the government to introduce a tax on these windfall gains, resulting in a rapid increase in government expenditure. Between 1932 and 1939, total industrial employment (including on the railways) rose from 555,000 to 929,000 (Houghton, 1971: 33-4).

The boom continued through the Second World War. Unlike most countries, South Africa experienced little economic disruption. Gold production, which amounted to one-third of global production in 1939, was maintained and even expanded during the war, despite persistent labour shortages. This, together with an increase in the price of gold over the period, largely covered the costs of the war (Richards, 1949: 149). The strong supply of foreign exchange enabled South Africa to repay foreign-owned debt. 'Our territory has been spared the ravages of war', declared Jan Hofmeyr, the Minister of Finance, in his budget speech in 1946. 'As a state, we have ceased to be a foreign borrower. Our foreign exchange reserves are soundly invested in a sufficient gold reserve. Our ability to buy from the world the goods which we do not produce at home is not limited, as is the case with so many war torn countries, by a lack of internationally acceptable money' (*Hansard*, 28th February 1946, 15, 2642). War conditions allowed the Government to increase taxes on individuals and companies (Lieberman, 2003: 138-44). Government revenues grew by an average of 11.1 percent p.a. in real terms between 1939 and 1945. Government expenditures rose by only 10.6 percent p.a., allowing the Government to run a budget surplus every year during the war, and to use this to reduce debt (Nattrass, 2005). Thus, while South Africa's allies (especially Britain) ran large deficits and borrowed money during the war, South Africa accumulated substantial gold reserves and repaid government and private debt (Garmany, 1954: 104).

The war years also saw a major expansion of state economic planning in South Africa, as in Britain and elsewhere. An Industrial and Agricultural Requirements Commission (IARC) was appointed in 1940 to facilitate an efficient mobilisation of resources during the war. An Industrial Development Corporation was established in 1940 'to facilitate, promote, guide and assist in, the financing of: a) new industries and industrial undertakings; and b) schemes for the expansion, better organisation and modernisation of and the more efficient carrying out of operations in existing industries and industrial undertakings' (quoted in Richards, 1940: 340). Prices and wages were closely regulated. In 1942, a Social and Economic Planning Council (SEPC) was established to provide more informed advice on policy (although its actual role in the formulation of policy was unclear) (Robertson, 1954: 106).

Sustained state support combined with high war-time demand and the lack of import competition to ensure that manufacturing industry continued to grow strongly (Richards, 1940; Frankel, 1947). At the start of the war, South Africa's engineering industry comprised little more than 'mine and Railway Administration repair shops plus certain fabricating firms, chiefly on the Reef' (Richards, 1940: 344) with little capacity for high specification fabrication. For some time the only factory which could manufacture rifle cartridges was the South African Mint (which switched its production from coins to ammunition at the start of the war). By the end of the war, in contrast, South Africa had developed a domestic machine tool industry and substantial manufacturing capacity. The manufacturing share of GDP rose from 12 to 19 percent between 1939 and 1949.

Foremost among the 'resources' that needed to be mobilised efficiently was labour. The IARC and subsequent SEPC adopted the arguments made in the 1926 Mills Report (of the Economic and Wage Commission) and largely endorsed in the 1934 Industrial Legislation Commission: The colour bar should be relaxed; coloured, Indian and African workers should be permitted to do more skilled work; and wage differentials between skilled and unskilled workers should be reduced. The costs of not doing these things would have been enormous, given that 200,000 white men out of a labour force of 790,000 volunteered for military service (Siebert, 1975: 53) and the available supplies of 'emergency workers' (women and unemployed artisans) were quickly exhausted.

The consequences were dramatic, over a short period. In manufacturing, the wage share rose at the expense of profits, and the racial wage gap shrank dramatically. The employment of African workers in manufacturing rose by

almost 8 percent per year during the war and their real wages increased primarily because of reduced skill differentials but also through upward occupational mobility (South Africa, 1951: 47). War-time emergency regulations allowed employers to engage (and train) black workers for jobs normally occupied by whites (Guenault, 1940: 393-4). Employers took advantage of the situation to restructure the labour process through mechanisation and deskilling (Spandau, 1972; Webster, 1985: 57). In firms investigated by the Wage Board between 1937 and 1946, only one in three semi-skilled jobs were filled by white workers (South Africa, 1948: 47). Wage differentials declined through direct state intervention. The Wage Board, which until the mid-1930s had been concerned primarily with protecting white workers' standard of living through setting high ('civilised') minimum wages for semi-skilled and skilled workers, turned its attention to the wages paid to unskilled, African workers (Griffiths and Jones, 1980: 98). In its 1941 annual report, the Board described unskilled wage-rates as 'insufficient for the maintenance of a healthy existence', and described at length (and endorsed) the Australian concept of a 'living wage' for unskilled workers. Employers' ability to pay was 'relatively less important where the wages of the lower paid workers are concerned', the Board insisted: unskilled wages should rise even if it meant squeezing profits (South Africa, 1941: 31). Upward pressure on wages also arose from militant action by African workers (Siebert, 1975; Duncan, 1995; Alexander, 2000). In 1942 the state provided for compulsory arbitration of industrial disputes. The Wage Board, as arbitrator, could resolve disputes in favour of unskilled workers (Siebert, 1975: 50), as well as setting higher minimum wages and cost-of-living allowances (Spandau, 1972: 380). At the same time, the state sought to 'stabilise' the wages of skilled, white workers through prohibiting strike action, regulating industries to prevent poaching of skilled labour, capping over-time pay and drawing white women into the labour-force (Nattrass, 2005).

Critics charged that not enough was being done. Sheila van der Horst, for example, argued in 1941 that failure to make better use of black labour undermined the war effort: 'Obviously, if we were prepared to mobilise our native labour resources for the industrial army, production could be increased enormously' (1941: 71). African workers continued to be denied access to the full technical training provided for white workers (Randall, 1942: 124). Wage Board increases were unsurprisingly sometimes less than demanded by African trade unions, and racial discrimination remained evident (Duncan, 1995: 172-5). Dramatic improvements in productivity suggest, however, that there was a massive shift in the utilisation of labour. Moll calculated that total factor productivity growth between 1939 and 1945 was faster than in any other period

in South Africa's economic history (Moll, 1990: 165). Bitter complaints at the time by agricultural and mining employers, and tensions between the Departments of Labour (which managed industrial conciliation and wage setting) and Native Affairs (which was primarily concerned with defending the migrant labour system for the mines), all suggested that the basis of 'cheap' unskilled labour was significantly undermined (Duncan, 1995: 175-8).

The reformism of these boom years reflected the influence of a more progressive conception of social justice as well as a more hard-hearted concern with economic efficiency. Efforts to raise unskilled wages or to assist poor, elderly people through old-age pensions were motivated by a strong sense that this was right as well as necessary. A range of South Africans were inspired by social policy reforms elsewhere in the world, especially in New Zealand. A 'social security movement', including leading economists and sociologists, lobbied for reforms along the lines of the 1942 British Beveridge Report. Caught up in this idealism, the governing United Party campaigned in the 1943 election on the promise of a 'better life for all' (although the party leader and Prime Minister, Smuts, voiced scepticism in his private correspondence) (Seekings, 2000, 2005). In 1944, old-age pensions were extended to African men and women, albeit with racially discriminatory benefits, and restrictions were relaxed on public spending on schools for African children.

The appeal of welfare reforms did not rely on idealism alone. State officials, employers (including in the Chamber of Mines) and others were anxious about the social and economic consequences of poverty. As Kahn pointed out in 1942, the great mass of the population remained 'cribbed, cabined and confined within the four walls of poverty, through inability to utilise fully their capacity to work' (1942: 144). By the early 1940s, observers like Kahn were armed with far more extensive knowledge about poverty than hitherto. Influenced by British research on poverty lines and global concern over nutrition, researchers (led by Batson) had begun to compare household expenditure with the cost of living for all sections of the urban population, and to measure malnutrition in both urban and rural areas. A series of studies suggested that malnutrition was stable or in decline within the white population but was rising within the African population (Wylie, 2001: ch. 5). The Chamber of Mines, concerned over the poor health of the mineworkers they were recruiting in rural areas, had sent researchers to the Transkei to assess malnutrition and mortality trends (Fox and Back, 1937). A series of studies in the 1940s documented the extent of absolute poverty in rural areas. A study in Natal estimated that annual incomes per capita in the reserves were only about £2, and on white farms about £6. Access to earnings raised the per capita income of African people in towns dramatically: Incomes per capita

in urban African 'locations' were estimated at about £18 p.a. (Dept of Economics, NU College, 1949). The 1944 Lansdown Commission found that overpopulation relative to production in the reserves had resulted in widespread malnutrition and deepened dependence on migrants' remittances. On average, families in the Transkei and Ciskei only met half of their minimal needs out of their own agricultural production. Subsistence was 'but a myth' for some households (South Africa, 1944: 17). The Social and Economic Planning Council concluded bluntly that: 'In practically no areas do the Reserve inhabitants as a whole produce sufficient food for the most elementary requirements of health' (South Africa, 1946: 49). Starvation was very rare, but life was nonetheless precarious for many African people in rural areas, some African people in urban areas, and some coloured people.

Poverty was reflected in infant mortality. Whilst infant mortality among white babies declined from less than one in ten in the 1920s to less than one in twenty in the 1940s, almost one in five African babies countrywide was dying before the age of one in the latter decade, and even more than this in some urban areas ((*Union Year Book*, 1934-35: 987; Sonnabend, 1949: 22; Mostert *et al.*, 1998: table 4-5, p77).

Whatever the precise trend in absolute poverty rates, poverty was widely perceived to be increasing by African people themselves. Wylie suggests that 'needs' were being redefined:

Eating mielie meal without relish (a stew of meat, potatoes, onions, and occasionally tomatoes) could give rise to the sense of being hungry, of living below an acceptable level of consumption. A child from a poor family could feel hunger while watching a better-off child devour a slice of bread covered with butter and jam. People were growing to need sweets, whether in beverages such as heavily sugared tea or in cakes and jam. Foods made with sugar were losing their luxury status, just as they had during the European industrial revolution. A modern sense of hunger, one that sociologists would call "relative deprivation", was being born. (Wylie, 2001: 109)

Just as living standards in Britain and Australia helped to define poverty meant among white South Africans, so the latter's affluence served to redefine what was acceptable among African people in South Africa.

The circumstances of war had empowered reforming technocrats, whether with respect to wage-determination, job reservation, influx control, or social policy. As soon as the war was won, the conservatism of many white voters and interest groups became much more significant politically, and many of the reforms of

the previous years were suspended or reversed. Having tolerated urbanisation and squatting during the war, in 1945 the government passed an Urban Areas Act that restored influx control, and pass law prosecutions increased. The Wage Board adopted a much harder line on the wages paid to unskilled, African workers:

It will be to the benefit of all concerned if representatives of non-European workers, mostly labourers, were to realize and 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 interests of the country, including those of labourers'. (South Africa, 1948a: 32)

When African mineworkers, whose wages had fallen in real terms during the war, resorted to strike action in 1946, they were severely repressed by the state. The functional distribution of income (i.e. between capital and labour) shifted back in favour of profits, with the share of profits in value-added rising from 38 percent in 1945 to 47 percent by 1950. The racial wage gap also began to widen again (Nattrass, 2005). It was also made much harder for African workers to claim unemployment insurance.

The Social and Economic Planning Council, a bastion of reformism, sought to respond to the changing political tide. In its final report, on *The Economic and Social Conditions of the Racial Groups in South Africa*, the Council complained about the short-term economic irrationality of limiting the incomes of African people:

Rising social and economic standards and increasing opportunities need not threaten the economic security of the European groups; on the contrary, the ill-health, ignorance and poverty of the non-Europeans constitute a drag of immense proportions on the whole economy of the country, to the detriment of all races. Poor social conditions produce inefficiency, disease and crime, which affect the whole community. (South Africa, 1948b: 111)

The Council spelt out its vision by summarising the recommendations made in its many previous reports. These included: the need for improved statistics; the enlargement and development of the reserves; the 'proper settlement in planned townships of those Native families who form a permanent part of the urban population'; improvements to agriculture; the vigorous expansion of industry including 'mechanisation and the employment of non-Europeans as operatives'; the 'provision of greater opportunities for educated Non-Europeans in the Public Service, the Railways and Harbours administration and local authorities'; compulsory education for all, 'greatly increased funds for non-European, especially Native education'; improved and subsidised housing for Africans;

food subsidies and the adoption of a comprehensive social security system (*ibid*: 114-116).

Any doubt about which of these competing programmes was to triumph were dispelled in the elections of 1948. The National Party's electoral victory ensured a return to the policies of the Pact Government, and a rejection of the more inclusive vision given some substance during the Second World War. Three years later, a new Commission of Enquiry on Industrial Legislation firmly rejected the SEPC's arguments for reducing inequalities. The (Botha) Commission argued not only that inequality was necessary for the survival of 'European civilisation in Southern Africa' but also that this was in the interests of the 'Native' (Botha Commission, 1951: 220). This was the basis upon which the apartheid economy was built after 1948.

7. Growth and stagnation under Apartheid

Between 1948 and the early 1970s, the economy grew rapidly and steadily. Real GDP approximately tripled between 1948 and 1970. Even taking into account population growth, real GDP per capita almost doubled over this period. The strong growth of the period since 1933 was sustained. Gold-mining was boosted by an increased gold price due to devaluation (in 1949) and the subsequent opening up of the Free State goldfields. Gold production, investment and revenues all rose dramatically. Massive investments in agriculture, heavily subsidised by the state, resulted in a steady increase in output. Despite their strong performances, the mining and agricultural sectors were overshadowed by growth in the manufacturing sector. The share of GDP accounted for by industry – including construction and electricity as well as manufacturing – overtook the *combined* share of agriculture and mining in the 1950s, and reached 30 percent by the mid-1960s (Feinstein, 2005: 144, 165-72, 193-9). In the boom decade of the 1960s, investment in manufacturing grew by 12 percent p.a. and real output by almost 9 percent p.a..

This period of growth coincided with the reversal of some of the policy shifts of the war years. The new National Party government introduced a swathe of racially discriminatory legislation and policies which further protected white workers from competition, limited the supply of skilled African, coloured and Indian labour, and favoured farming and the mines over manufacturing in terms of access to unskilled labour. It delivered inflated earnings and living standards for white South Africans, in part at the expense of black South Africans, and in

part at the expense of future growth, as the economy became less and less competitive internationally.

The strong growth rate over the 1950s and 1960s was widely identified, by conservative, liberal and Marxist scholars, as exceptional by global standards (see Moll, 1991: 271-2). Liberal commentators explained this in terms of strong entrepreneurship, *despite* restrictive government policy, whilst government and Marxist scholars alike attributed it the ‘success’ of the very same government policies. In fact, as Moll pointed out, the South African economy did *not* perform exceptionally in international terms. The post-war period was the ‘golden age’ of capitalist development globally. The South African economy might have been growing rapidly, and more rapidly than most of the advanced capitalist economies of north-west Europe, but its growth was slow in comparison to other similar countries. South Africa was out-performed in the 1950s by three-quarters of the twenty medium-sized or large middle-income countries that Moll examined, and by one half of them in the 1960s. Feinstein (2005: 145) confirmed Moll’s findings for a larger group of thirty countries, whose average growth rate of GDP per capita over the period 1950-73 was almost double South Africa’s (at 4 percent p.a. compared to 2.2 percent p.a.). Du Plessis and Smit (2009: 34) reveal one telling additional detail to this story: South Africa’s GDP per capita was at its highest *relative* to similar countries in 1950; thereafter, its relative position declined. The exceptional phase of South African economic growth was the period prior to 1950, not the early apartheid era.

South Africa’s relatively poor economic performance during this period of global growth is reflected in other indicators. First, even in the 1960s, gross capital formation was lower as a percentage of GDP in South Africa than the average for either lower or upper middle income countries, or for the world as a whole (Fedderke, 2009: 183). Moreover, throughout the entire post-war period, government accounted for a substantial proportion of gross fixed capital formation (*ibid*: 184). Secondly, profit rates declined over the apartheid period (as we shall see below). Thirdly, productivity growth was very weak. Moll calculates that total factor productivity – i.e. that part of growth that cannot be explained by increased use of capital or labour – rose by a meagre 0.2 percent p.a. in South Africa between 1950 and 1973. In Korea and Taiwan, total factor productivity rose by about 3 percent p.a. across this period, and even in Brazil, Chile and Mexico it grew by about 2 percent p.a. (Moll, 1991: 287). ‘Had South Africa achieved the same –unexceptional – rate of TFP growth as Brazil over the 1950-73 period, for example, its GDP growth rate would have been 1.9 per cent per annum higher, and by 1973 the economy would have been 50 per cent

larger' (*ibid*: 288; see also Bell, 1995). Fourthly, South Africa failed to increase its exports, and accounted for a steadily declining share of world trade. South Africa's share of global manufactured exports fell from 0.8 percent in 1955 to 0.4 percent in 1970, whilst its share of developing country manufactured exports similarly fell by one half, from more than 12 percent to about 6 percent (*ibid*: 282).

Economic growth declined from 5 percent p.a. in the 1960s to 3 percent p.a. in the 1970s and only 1.5 percent p.a. in the 1980s – which was less than the population growth rate, meaning that GDP per capita actually declined. South Africa was not unique in experiencing economic difficulties in the 1970s or 1980s: most of Latin America also experienced similarly slow growth. Changing global conditions were unfavourable. But even during this period, and despite the crisis across Latin America, South Africa's *relative* performance deteriorated further. Moll found that the South African growth rate remained below the median for his sample of twenty similar economies (Moll, 1991: 278), whilst Feinstein found that South African growth rate for GDP per capita after 1973 was lower than for any of his clusters of similar countries, including not only European and Asian cases but also cases in Latin America and Africa (2005: 145; see also Du Plessis and Smit, 2009: 34). South Africa's share of global manufactured exports fell to less than 0.3 percent, and its share of developing country manufactured exports fell to less than 2 percent, in 1985 (Moll, 1991: 282).

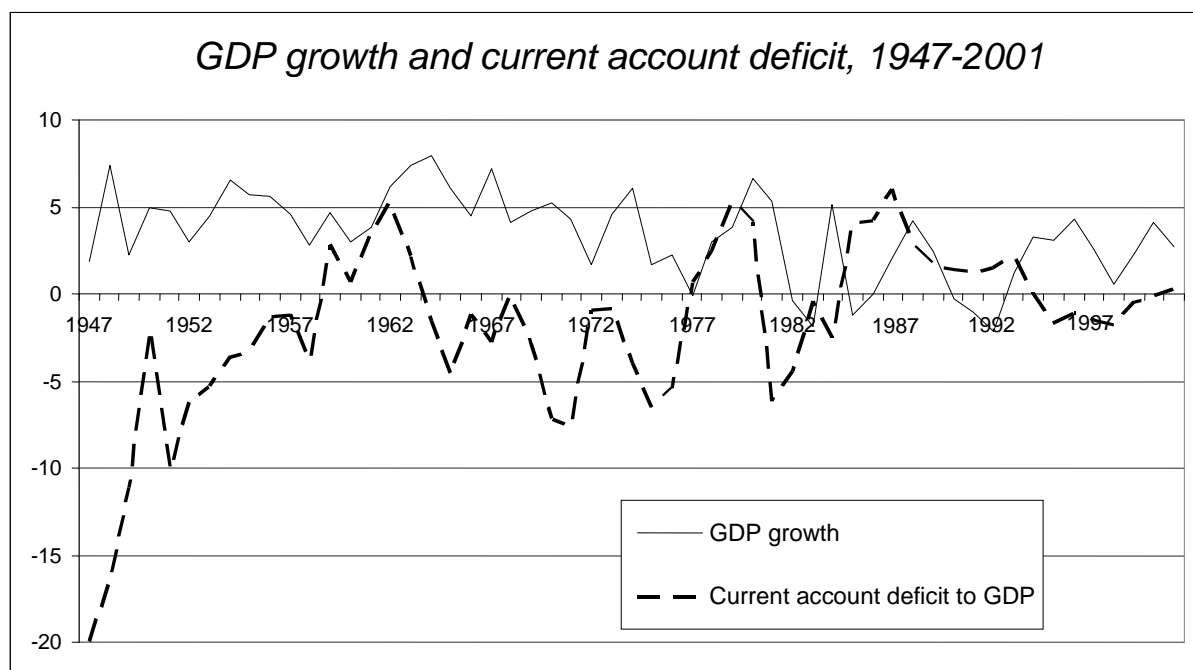


Figure 2: GDP growth and current account deficit

Source: South African Reserve Bank (www.reservebank.co.za)

One reason why economic reason was relatively weak is that growth repeatedly led to balance of payments crises as exports failed to match imports and the current account moved into deficit (see Figure 2). The slow growth of the 1980s was in part due to the negative effects on investment of the township revolt and general political uncertainty, which discouraged investment, whilst sanctions inhibited trade (exacerbating pressure on the balance of payments). But the political crisis was itself in part due to the economic one. The township revolt in 1984 was initially concentrated primarily in areas – especially the Vaal Triangle and East Rand – where the downturn in manufacturing had resulted in deepened hardship, exacerbated by drought in the countryside (Seekings, 1990). And the balance of payments reflected underlying problems with the economy.

One interpretation of the economy contrasts the supposed health of the economy in the 1950s and 1960s with the crisis of the 1980s. In this view, apartheid had been functional to economic growth in the earlier decades, in that the supply of cheap labour through the coercive mechanisms of the pass laws (and other policies) had ensured high profits. In the 1970s and '80s, however, the dynamics or contradictions of the apartheid growth model had become apparent: rising capital-intensity and a restricted internal market (due to the meagre purchasing power of poorly-paid African workers) led to the economic crisis (e.g. Saul and Gelb, 1981).

This interpretation, however, overplays the performance of the economy during the global post-war boom and underestimates the economy's chronic economic weaknesses. Figures 3 and 4 show that profit rates in South Africa were on a trend decline from 1960, from when good data are available (and probably from the 1940s, using the best available data, see Nattrass, 1990, 1993). The profit rate in mining does fit the story of strength-to-crisis: It rose (and then fell) dramatically with sharp increases in the gold price, but only declined steadily in the 1980s. In commerce (i.e. wholesale and retail trade, catering and accommodation), the decline began in the late 1960s. In manufacturing, however, the profit rate fell steadily over the 1960s, '70s and early '80s.

Apartheid was not without its short-term benefits to some employers, at some times, in some sectors. Influx control and the colour-bar served to protect the supply of unskilled labour to farms and mines, and profitability in mining actually rose in the 1950s (Nattrass, 1993). This was not the case in manufacturing, however, due to the combination of wages rising faster than labour-productivity, on the one hand, and falling capital productivity on the other (see Figure 4). In the early 1950s, wage increases for white manufacturing workers were compensated for by falling wages for non-white workers. From

1955, rising wages for skilled and semi-skilled for workers in all population

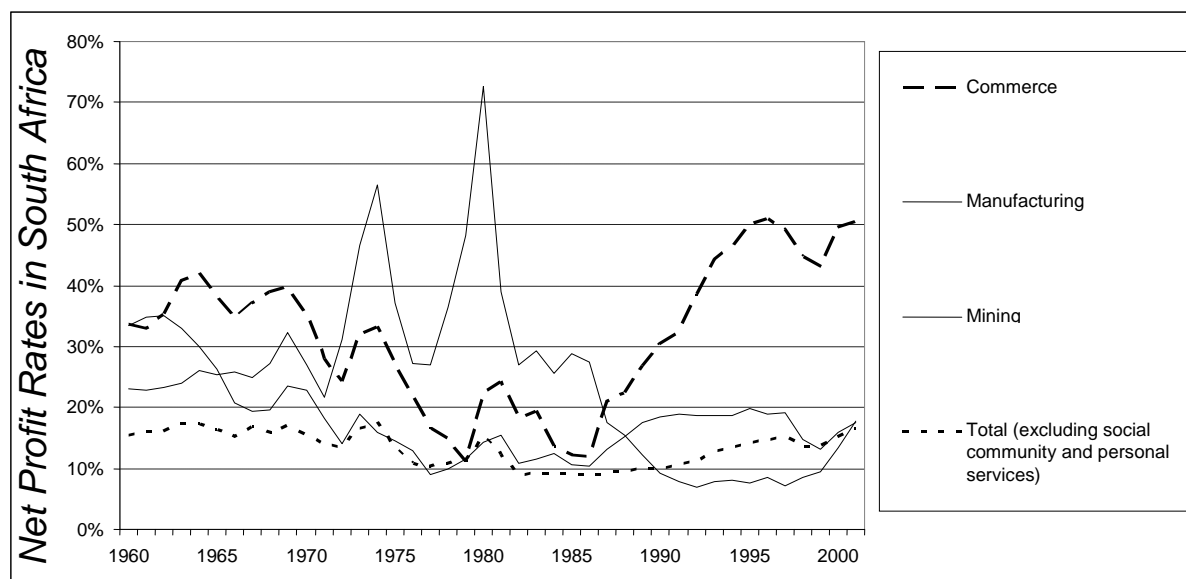


Figure 3. Net Profit Rates in South Africa by Economic Sector: 1960-2001

Sources: Calculated from published and unpublished data from the South African Reserve Bank; Nattrass (1990).

groups put pressure on profitability (Nattrass, 1993). By the 1970s, competition between producers for the limited domestic market was one factor. Another was the continuing pressure on costs from new restrictions on the employment of African workers (including the 1967 Physical Planning and Utilization of Resources Act, which limited employment in certain industries and urban areas). Generous investment subsidies and tax breaks as well as negative real interest rates encouraged capital-intensification, but declining capital productivity. State investment in large-scale capital-intensive projects such as SASOL exacerbated this trend (Kaplinsky, 1995). Between the 1960s and early 1980s, the cost of capital relative to labour fell by about one half, due to rising wages and negative real interest rates. Even when profit rates stabilised in the mid-1980s, employment did not grow, perhaps because of high levels of industrial conflict. A 1991 survey of manufacturing employers found that 'labour problems' were most often cited as the cause of the continuing drift towards capital intensity (Meintjies, 1998: 11). The net result was that the South African industrial sector became steadily more capital-intensive over time, even as the productivity of capital fell.

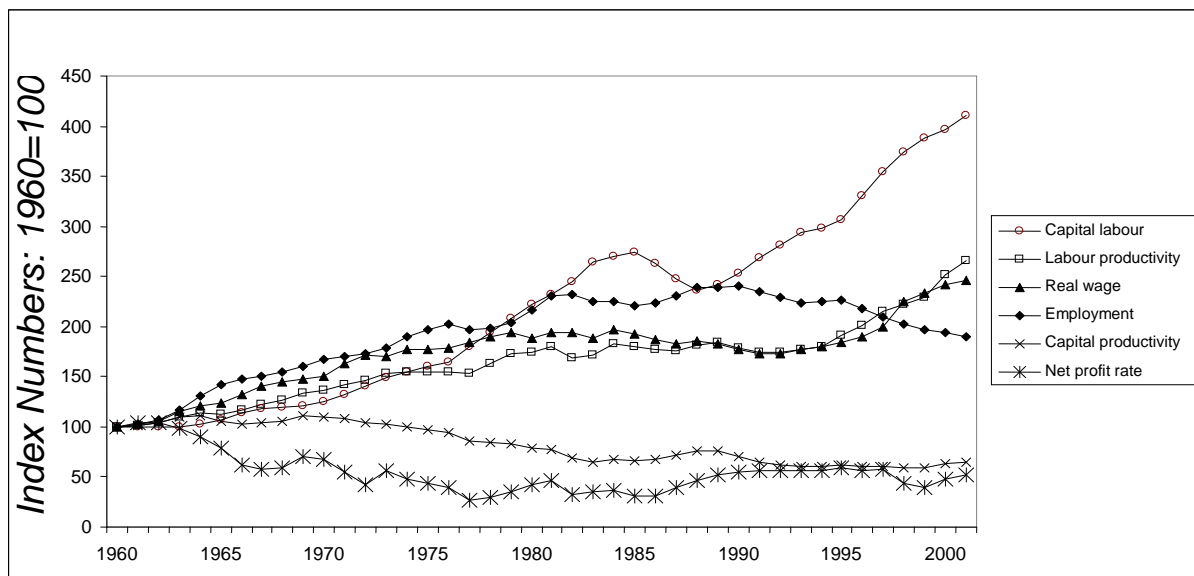


Figure 4. Key Trends in South African Manufacturing Profitability, 1960-2001

Sources: Published and unpublished data from the South African Reserve Bank.

The performance of manufacturing was especially important because of the rising share of this sector in overall production. Under apartheid, the structure of the economy continued to change, from being a heavily minerals-based economy into one more dependent on manufacturing and services (see Figure 5). Between 1948 and 1989, mining's share of value-added fell from 19 percent to 9 percent, whilst manufacturing's share rose from 11 percent to 21 percent. The distribution of employment between sectors changed accordingly.

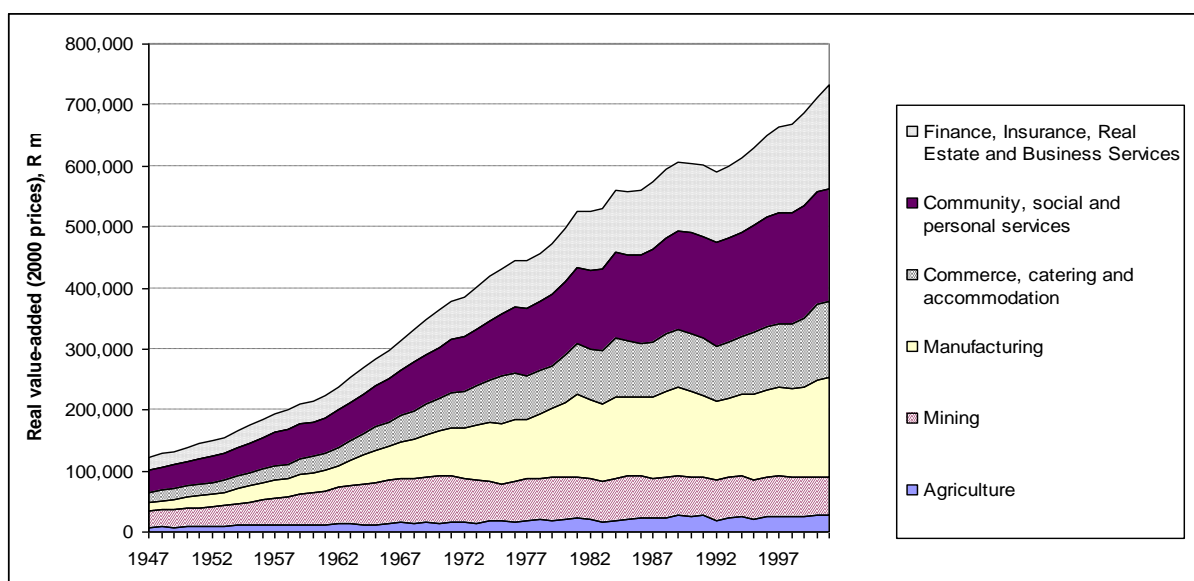


Figure 5. Structural Transformation in the South African Economy: 1947-2001

Source: South African Reserve Bank

The growth of manufacturing was the result of conscious government policy. One aspect of this was a massive public and parastatal sectors. Prior to 1948, the state already owned and operated the railways and harbours, electricity production, and the iron and steel industry. In 1951, a South African Coal, Oil and Gas Corporation (Sasol) and Phosphate Development Corporation (Foskor) were established. An Armaments Corporation (Armcor) was established in 1963 following the imposition of an international arms embargo against South Africa. Parastatals were established also in the aluminium industry (Alusaf) and merchant shipping (Safmarine). The state was also involved in various other manufacturing sectors through businesses established in whole or in part through its Industrial Development Corporation. By 1970, Clark concludes, 'the state controlled the "commanding heights" of the South African economy', with the very notable exception of the mining industry (Clark, 1993: 88). State intervention was not limited to the parastatal sector. It played a crucial role in promoting Afrikaners' ownership of private capital. Low-wage, labour-intensive firms were given incentives to locate in or near to Bantustans. And security considerations led to the promotion of industries such as telecommunications and electronics (Kaplan, 1990).

More generally, the state fostered the private sector through tariffs on imports and, from 1948, import licensing. In the motor industry, for example, Ford and General Motors first established small operations in South Africa in the 1920s because tariffs were lower on unassembled kits and components than on fully-assembled cars. In the late 1940s, new controls on imports led to investments by British companies Leyland and Austin, and a new wave of controls in the 1960s led to investments by companies including the British Motor Corporation, Renault, Chrysler, Datsun-Nissan and Volkswagen (Duncan, 1992, 1997). The establishment of South African Pulp and Paper Industries (SAPPI) required massive initial capital investment. One of the mining houses took this 'risk' with state assurances that no import licenses would be granted until SAPPI could no longer supply the entire local market (Feinstein, 2005: 181). The result was that much of the new manufacturing production was very inefficient. In the late 1960s and early 1970s, it cost 50 percent more to producing a motor car in South Africa as in the USA (*ibid*: 183).

Not being encouraged to compete internationally via exports, [manufacturers] settled down to enjoy internal markets and in some cases returns to scale could not be achieved. Many 'infant' industries seem never to have grown up and required tariffs and protection decades after being started. The 'easy' stage of import substitution in light final and intermediate goods industries ended in the early 1960s, but possible shifts towards exporting light manufactures and the

efficient production and export of capital goods (for example mining machinery) did not take place. (Moll, 1991: 283)

Manufacturing became ‘plump and inefficient’ (*ibid*: 284), utilising resources ‘very inefficiently’ (Joffe *et al.*, 1995:12; see also Feinstein, 2005: 211-221). Industrialisation through import-substitution was a ‘self-inflicted wound’ (Edwards and Lawrence, 2006) that undermined efficiency and dynamism in the economy as a whole.⁸

Protected domestic markets and constraints on foreign investment encouraged the concentration of ownership within the private sector. Anglo-American had begun to expand its activities beyond gold and diamonds prior to 1948 (acquiring chemicals manufacturer AECI through De Beers in 1929 and Union Steel in 1945), and continued to expand under apartheid. In the 1960s it established Highveld Steel to compete with Iscor, took over Scaw Metals and established the Mondi paper business. In the 1970s it diversified further, including into automobile retailing and production, property, and banking (acquiring a larger share in Barclays Bank, with which it had long co-operated). Through various intermediaries it had a large stake in the massive Barlow Rand group (Innes, 1981). In the 1980s, Anglo-American took over the South African operations of Ford and Barclays Bank (which became First National Bank) when their parent companies divested. Other manufacturing interests included South African Breweries, Premier Milling (co-owned with Liberty Life), and sugar giant Tongaat-Hulett. By 1992, Anglo controlled 34 percent of the entire Johannesburg Securities Exchange (JSE) capitalization. The insurance giant Sanlam (16% of the JSE) and Anton Rupert’s Rembrandt Corporation (15%) followed Anglo’s lead in becoming massive conglomerates. Sanlam, for example, owned most of Gencor, whose interests included Genmin (in mining), SAPPI (in forestry), Engen (fuel distribution) and diverse manufacturing and financial firms. Six conglomerates – i.e. Anglo-American, Sanlam and Rembrandt, together with insurance companies S.A. Mutual (14%, including Barlow Rand) and Liberty Life (5%), and Anglovaal (3%) – together controlled a total of 86 percent of the JSE (Lewis, 1995). This concentration of ownership, via complex cross-holdings and preferential shares, led Schneider (2008) to include South Africa in his list of ‘hierarchical market economies’, in which the locus of co-ordination is the conglomerate rather than either the market or corporatist institutions.

South Africa was not an orthodox case of industrialisation through import-substitution (ISI). Industrialization in South Africa did not proceed simply

⁸ Bell queried whether South Africa was more inefficient than other, similar economies (Bell, 1995; see also Kaplan and Lewis, 1996, Bell, 1996).

through the sequence of, first, the development of consumption goods industries and subsequently, through backward linkages, intermediate and capital goods industries, but rather involved a mix of both this and of industrialization through forward linkages from the ‘core’ mining-related sectors (Fine and Rustomjee, 1998; Bell and Farrell, 1997; see also Fine and Rustomjee, 1998; Bell 1998). Export-oriented mining remained central to the South African economy. The share of mining in value-added might have declined steadily (see Figure 5 above), but its continuing importance was evident in the early 1980s when the high gold price help to cushion South Africa from a still-deeper recession.⁹

Even when the state began to encourage manufacturers to export, however, the South African performance was poor.

In the 44 years between 1960 and 2004, the real value of exports grew by only 34 percent (about 0.7 percent per year). By contrast export growth was 169 percent in Argentina, 238 percent in Australia, 1887 percent in Botswana, 385 percent in Brazil, 387 percent in Canada, 390 percent in Chile, 730 percent in Israel, 1192 percent in Italy, 4392 percent in Malaysia, 1277 percent in Mexico and 120 percent in New Zealand, to name a few relevant comparators. (Hausmann, 2008: 2)

The failure to diversify and increase exports had two especially serious consequences. First, it contributed to the structural constraint that, whenever growth rates improved, the current account fell rapidly into deficit (see also Feinstein, 2005: 224-230). This, coupled with skills shortages, fuelled inflation and led to restrictive economic policies (De Kock, 1975; Hausmann, 2008). Secondly, employment growth was further inhibited. In the 1980s, manufacturing as well as mining and agriculture shed jobs (Hausmann, 2008). The parts of the economy whose growth came to drive the overall growth rate – notably finance and business services – were the most-skill intensive, whilst the relatively labour-intensive export sectors were disadvantaged (Hausmann, 2008). This, in turn, aggravated the skills constraint whilst placing further pressure on the balance of payments (as the growing service sectors used rather than generated foreign exchange).

8. The Transformation of the Labour Market

Economic growth during the apartheid period – especially in the industrial and service sectors – was accompanied by significant change in the structure of

⁹ Fine and Rustomjee (1998) err in their estimation of the size of the ‘minerals-energy complex’ by including all related manufacturing within the ‘complex’ (see Bell and Farrell, 1997).

employment and, consequently, in patterns of inequality and poverty (Seekings and Nattrass, 2005: chapter 3). Just as tractors transformed the countryside, so new technology and ways of organising production transformed factories, building sites, mines, and offices. Employers were keen to reorganise production through increased mechanisation not simply because the state provided strong incentives to mechanise and therefore employ fewer African workers, but also because they wanted to reduce their dependence on scarce, expensive and autonomous artisans or skilled workers. In South Africa, the high wages paid to skilled (white) workers, and persistent skills shortages, provided strong incentives to employers to 'fragment' the skilled trades (occupied by white workers) into semi-skilled occupations (occupied by coloured, Indian or African workers). But white artisans were powerful, both industrially (in the workplace, in part through their societies or trade unions), ideologically (as *white* workers) and electorally (through the ballot box).

Although 'Fordist' production was first introduced in South African manufacturing in the 1930s, at the Durban Falkirk iron foundry (Webster, 1985), its introduction was delayed in many sectors to the 1970s, '80s or even '90s. Crankshaw (1997) shows that, in general, production was transformed first and fastest in sectors where there were not well-organised and powerful constituencies of white artisans. For example, African workers moved into white-collar occupations in services far faster than into skilled work in manufacturing or mining. In sectors where white workers were well-organised, deskilling could only be implemented with their consent, which meant that mass production was often delayed until employers could promote white artisans into better-paid supervisory or managerial positions. At the level of the economy as a whole, the reorganisation of production in manufacturing depended in part on the growth of well-paid employment opportunities in services. Given the continuing power of (white) skilled workers, mechanisation meant not so much replacing skilled with semi-skilled work as replacing large amounts of unskilled labour with smaller amounts of semi-skilled labour. The combination of sectoral shifts – from industry to services – and the mechanisation of formerly unskilled work was evident in data on employment from the official Manpower Surveys, conducted between 1965 and 1992 (Crankshaw, 1997).

For people with the skills, qualifications, racial classification, or pass law status to be able to secure employment in the expanding, better-paying classes, the period was one of rising prosperity. For people competing for the stagnant number of unskilled jobs, the period was one of continuing or deepening hardship. The primary beneficiaries of economic growth and change were white. The white labour force became almost entirely urban and employed in white-collar

rather than blue-collar occupations. Among Afrikaans-speaking white workers, employment in agriculture fell from 30 percent in 1946 to 8 percent in 1970, whilst white-collar employment rose from 29 to 65 percent between 1946 and 1977 (O'Meara, 1996: 138). Real per capita incomes among the white population more than doubled in one generation (McGrath, 1990: 95), raising the demand for consumer goods.

As semi-skilled, skilled, and white-collar employment grew in the economy as a whole, so most coloured and Indian workers were also able to move into better-paying occupations (although this did not prevent forced removal under the Group Areas Act). Upward occupational mobility among coloured and Indian people was based on improved public education, at both secondary and tertiary levels. Urbanisation, better schooling, and rising incomes also led to improved health. Eberstadt notes that 'hardly any other population on record' – i.e. anywhere in the world, at any time – 'enjoyed such a rapid and sustained pace of improvement in child survival' as coloured South Africans between 1970 and 1985 (1992: 160).

The growing, changing economy brought huge changes for the urban African population also. Despite influx control, this population grew from about 2.2 million in 1951 to 5.6 million by 1980 (Simkins, 1983). This growth was accompanied by change in just about every aspect of life: schooling, work, household structure, living conditions, culture and leisure activity, and politics. This urban African population also benefited from technological and economic change. When forklift trucks, cranes, and other handling equipment were introduced into factories, the African workforce in manufacturing was reduced by 10 percent (Crankshaw, 1997: 54-7). The remaining jobs required more skill and were better paid. Until 1960, almost all African workers were unskilled, but by 1980 unskilled labour accounted for less than one half of African employment in the Johannesburg area and less than two-thirds in other areas of Gauteng. By 1994, a survey of its own members conducted by the Congress of South African Trade Unions found that only 30 percent were classified by employers as unskilled; 30 percent were unskilled, 21 percent skilled, 9 percent supervisory, and 10 percent clerical (with 5 percent classified as 'other') (Buhlungu, 2006: 8). For better educated, younger African men and women, opportunities steadily improved.

Even employment in gold-mining was transformed. For decades, large numbers of men from rural areas migrated to the mines, earned low wages, but remitted a share of their wages to rural kin. Many men took breaks between successive employment contracts, so that there was de facto job-sharing. In the late 1970s, the mines began to 'stabilise' their workforce by employing a smaller pool of better-

paid, more highly skilled workers for the long term rather than a larger number of less skilled workers who might work one year but not the next. The emergence of the “‘career miner”, who had to work continuously on a particular mine or forfeit his job’, meant higher wages (but perhaps poorer health) for a smaller total number of mine workers; the ‘stabilisation’ of mine labour ‘shut out a whole generation of new work-seekers who could once have counted on a mine job, if nothing else’ (Crush, 1995: 25; see also Murray, 1995). As semi-skilled replaced unskilled employment, total employment stagnated.

Outside of mining, the new opportunities for African workers were mostly filled by newcomers to the labour force, i.e. upward occupational mobility was inter-rather than intra-generational (Schneier, 1983). This reflected the massive expansion in primary and, later, secondary schooling for African people under apartheid (notwithstanding its poor quality relative to public education for white people). This expansion occurred in two distinct periods. First, from the mid-1950s onward there was a massive increase in the provision of primary schooling for African children. The effect of this was to raise dramatically adult literacy rates among urban African people. Second, from the late 1960s (but later in urban areas), there began a massive expansion of secondary schooling. Secondary school enrollment rates among African children rose from a mere 4 percent in 1960 to 16 percent in 1970 and 35 percent in 1980 (Pillay, 1990: 34). Secondary education was transformed from ‘the prerogative of an elite’ into ‘a mass phenomenon’ (Bundy, 1987: 312). In greater Soweto, for example, there were only eight secondary schools until 1972. By 1976 there were twenty, with three times as many students as in 1972. By the end of 1984 there were fifty-five secondary schools. There was also a marked expansion of tertiary education. In 1960 there were fewer than 800 African students at residential universities. By 1983 there were about 20,000.

Not all African people enjoyed the same opportunities with respect to education and thus the newer, better-paying jobs. The children of the already better-off were advantaged relative to the children of the poor (Schneier, 1983: 45-6). The opening of new employment opportunities in the towns thus exacerbated emerging class inequalities in the African population. The large numbers of African people who had been removed from farms into sprawling slums in the homelands were for the most part denied good schooling, and had no prospect of finding well-paid urban employment (Murray, 1992).

Employers saw the promotion of African workers into semi-skilled and skilled work as a way of both overcoming the shortage of white skilled labour and reducing labour costs. Some employers favoured extending to African workers

the rights enjoyed by white workers, crucially with respect to union representation and access to the wage- and benefit-setting industrial council system. The upsurge of strike action and the formation of new 'independent' trade unions (independent, that is, of the established unions dominated by white workers) representing mostly African workers in the 1970s encouraged reformists, who saw the incorporation of labour into the industrial relations system as preferable to chronic confrontation. Anglo-American led the reformist wing of business, in the face of conservatism from the other members of the Chamber of Mines and other manufacturers (notably in the Barlow Rand group). The Wiehahn Commission embraced much of the reformist agenda in its 1979 report, recommending that unions representing African workers be recognized.

The government's recognition of the independent unions opened up the possibility of their participation in the existing institutions of collective bargaining, i.e. the industrial councils and their counterparts in sectors such as mining. The industrial council system offered different benefits to different participants at different times. From the perspective of the new 'independent' trade unions representing mostly African workers, the white workers' unions used the councils to negotiate wage increases for themselves at the expense of low-paid black workers (Baskin, 1991: 256). The established unions certainly used the councils to defend the colour bar, but by the 1970s the minimum wage rates agreed in the councils seem to have been of marginal concern to most white workers, because the skills shortage meant that white artisans were generally paid much more than the agreed minima (Friedman, 1987: 267). Rather, the councils served to protect white workers' pensions and other benefits. Minimum wages were, however, of value to large employers, who used the extension of negotiated minimum wages across entire sectors to remove the possibility of employers competing on the basis of lower wages. 'If agreements were not extended to non-parties it would, in the opinion of many employers, be of little use to continue negotiating on industrial councils' (Bendix, 1995: 492, quoted in Standing et al., 1996: 194). Unionists themselves recognized the importance of this, especially in labour-intensive industries. For example, the *South African Labour Bulletin* noted in 1990 that it was 'in the interests of the larger employers' in the contract cleaning industry 'to be part of an industrial council, where they can set standards, wages, etc', because the extension of agreements across the whole sector meant "fly-by-night" operators are prevented from undercutting the larger companies' (Pillay, 1990: 8).

Minimum wages were of marginal interest to the established unions by the late 1980s, but they were of great concern to the independent unions. The prospect of negotiating over minimum wages and improved benefits across entire sectors,

rather than piecemeal at the plant level, was very attractive – as long as they could avoid being bureaucratized and continue to use strike action. In 1981, for the first time, one of the smaller new unions joined the industrial council in the metals industry (Friedman, 1987: 270). Anglo-American pushed employers' bodies such as the Steel and Engineering Industrial Federation of South Africa (SEIFSA) to open industrial councils to the new unions. In 1983, unions affiliated to the Federation of South African Trade Unions (FOSATU) joined industrial councils in the textiles and metals sectors, after employers made important procedural concessions to them and over-rode opposition from the established unions. FOSATU unions insisted on their right to organize and negotiate at the plant level as well as the industrial level, and backed the demands presented in the councils with strike action (*ibid*: 326-31). As long as an independent union was just one of several unions on an industrial council, the value of participation remained muted. As the independent unions outgrew the established unions in terms of membership, they faced the prospect of being the majority unions on the councils – and of acquiring the power that came with this. The National Union of Mineworkers, which negotiated centrally with the Chamber of Mines (although without any need for an industrial council), provided an example. After the formation of the new union federation, the Congress of South African Trade Unions (COSATU), in December 1985, several major unions in both manufacturing and services identified industrial councils as an opportunity to advance their campaigns for a 'living wage' through negotiating industry-wide minima (Baskin, 1991). The discourse of a 'civilised' wage was reincarnated via the very same institutions through which it had been effected in a racialised form half a century earlier.

COSATU's growing enthusiasm for the industrial councils prompted mixed responses among employers. Some employers – especially in the Barlow Rand group – became more hostile to centralized bargaining over wages, although they were more willing to negotiate centrally over issues such as provident funds, medical aid and training. Unions blamed the collapse in 1989 of the printing industrial council – one of the oldest in the country – on Barlow Rand's subsidiary Nampak. In a growing number of sectors, however, including notably engineering and car manufacturing, COSATU unions reached agreement with employers over centralized bargaining (Pillay, 1990; Baskin, 1991).

The new unions reinvigorated the industrial council system, using it just as white workers' unions had used it earlier in the century, to push up minimum wages and to secure improved benefits and working conditions, in the face of economic pressures to depress wages and labour costs. Unions affiliated to COSATU rightly saw that the 'wage gap' – i.e. the gap between the salaries and

wages paid to better-paid (mostly white) employees and the wages paid to unskilled workers – was very wide, and that most of their members (including semi-skilled as well as unskilled workers) were paid less than a ‘living wage’ (which a union-linked service organization calculated in 1989 at R1140 per month (approximately \$430 per month at the time). What made industrial councils especially attractive is that they enabled a union to neutralize the downward pressures on wages exerted by non-members. For most of the twentieth century, such downward pressure on unionized (white) workers’ wages came from coloured and African workers, and the solution, negotiated in part in the industrial councils, was the colour bar. At the end of the century the pressure on unionized African workers’ wages came from the growing numbers of unemployed African workers. The extension of minimum wages across whole sectors had the effect of preventing the survival or emergence of smaller, low-wage, labour-intensive enterprises, and thereby contributed to the rising capital-intensity of production and, perversely, the very unemployment that was threatening wages in the first place.

The increase in unemployment in the last decades of apartheid was rapid and dramatic (Seekings and Nattrass, 2005: chapter 5). In the 1940s and 1950s, the economy had been plagued by chronic labour shortages (Union of S.A., 1950b: 33-8; Van der Horst, 1949). Workers opted for better-paying urban jobs rather than poorly paid, arduous, and unpleasant agricultural and mining employment, and even in towns they avoided the most poorly paid work (Posel, 1991: 197-8). Commercial farmers, unable to compete with the wages paid by urban employers, successfully lobbied the apartheid state to extend and tighten the pass laws to ensure their supply of cheap labour. In this context, the only unemployment was among people in town who could afford and were legally able to wait for better-paid jobs rather than take relatively low-paid employment. By the end of the 1970s, however, the scale of unemployment was evident in the crowds of men seeking employment through rural labour bureaux or queuing outside urban factories. In Sekhukuneland, in 1976, ‘labour bureau day at the magistrates offices was a chilling sight as crowds of desperate men crowded around the handful of recruiters hoping to be amongst the tiny minority who would secure work’ (Delius, 1996: 147). The labour bureau at Richards Bay reported having ‘a thousand people at the gate every day’; at Maluti the announcement of three hundred vacancies in 1978 attracted four thousand work-seekers; and in King William’s Town, work-seekers flattened the fence around the labour bureaux when vacancies were announced (Greenberg and Giliomee, 1985: 69-72). When scholars began to conduct local labour market surveys in the 1970s, they invariably found that open unemployment among African people was both high and apparently recent (Maree and de Vos, 1975; Loots, 1978).

It is likely that widespread underemployment gave way to open unemployment in the early 1970s. There are, unfortunately, no good aggregate statistics on unemployment over time. The official register of the unemployed excluded African people, whilst the population census both (mis-)classified unemployed African people (including as 'peasant farmers' or 'housewives') and excluded entirely those bantustans that had become 'independent'. Knight (1977) and Simkins (1978, 1982, 1984b) sought to measure the 'gap' between the total labour force and employment (including in peasant agriculture), i.e. the underutilisation of labour through either unemployment or underemployment. In the 1940s and 1950s, the 'underemployed' included 'idle' African men and women in town looking for better-paying work as well as African families on white farms and in the Bantustans who had some residual access to land. The aggregate employment gap seems to have widened during the 1950s but not by much during the 1960s or 1970s. The dramatic increase in the visibility of open unemployment in the early 1970s probably resulted from the shift from widespread underemployment (as many unskilled people worked for part but not all of each year) to a more dualistic labour market in which a smaller number of people were permanently employed, increasingly in semi-skilled, better-paid employment, whilst others were excluded entirely. The highest open unemployment rate recorded in the late 1970s – 42 percent – was in a resettlement area in Limehill (in KwaZulu). Such resettlement villages were home to the most marginalised section of the population, removed from white farming areas and denied access to the towns (Desmond, 1978: 14-25).

By 1994, more than one-third of the African labour force indicated that they wanted work but could not find it. Two surveys conducted forty years apart in Keiskammahoek (a poverty-stricken part of the Ciskei) reveal the extent of this dramatic shift from labour shortage to surplus in African areas: in 1949, many poor households were unable to farm all of their land because they lacked labour (Houghton and Walton, 1952); four decades later, up to 50 percent of the labour force in the area was unemployed (Sperber, 1993: 19). Apartheid policies created an 'underclass' of the landless, unskilled, unemployed, concentrated in places like Limehill and Keiskammahoek, unwanted by farmers or on the mines, poorly integrated into the networks through which people might find employment, and without any safety-net in subsistence agriculture (Seekings and Nattrass, 2005: chapter 9).

9. Deagrarianisation and Landlessness

One of the causes of unemployment and inequality was the destruction of the African peasantry. This was rooted in the legal dispossession of most of the land by white settlers, in both the British colonies and the Boer republics, in the nineteenth century. Despite brief periods of buoyant production for markets (Wilson, 1971; Bundy, 1979) and sustained struggles to retain access to land, the combination of racist legislation on land ownership (notably the 1913 Natives Land Act) and the rise of capitalism in agriculture (Morris, 1976) had marginalized the African peasantry in most – but not all – of South Africa by the 1940s.

But the destruction of the peasantry was completed only under apartheid. Sharecroppers continued to find niches in poorer corners of ‘white’ South Africa into mid-century, as Van Onselen shows in his biography of Kas Maine. Maine’s best ever harvest was in 1948-49: After paying his landlord and the twenty-five labourers he had employed to supplement family labour during the harvest, Maine earned £300 after selling his produce, the equivalent of the annual salary of a teacher (Van Onselen, 1996; see also Keegan, 1988). In many areas, the African workers employed by white farmers were also their labour tenants or retained rights to use some land for crops or cattle. In the African reserves, households were dependent on *both* migrant remittances *and* agricultural production. Indeed, one-third of all cattle in South Africa in the 1940s were in the reserves. Taking into account the more successful African labour tenants, sharecroppers, and farmers in the reserves, perhaps 15 percent of the total population of South Africa in mid-century was sufficiently involved in independent farming to warrant the label ‘peasant’ (whilst a similar or even larger proportion, in the towns as well as the countryside, still aspired to this).

By 1970, however, the last vestiges of an independent African peasantry were all but eliminated, both on white-owned farms and in the reserves. Without access to land, African families were unable to preserve their cattle holdings. The loss of land and cattle led to massive social disruption, with the effect that even rural society bore little resemblance to the agrarian society of the first half of the twentieth century. This transformation began on white-owned farms. Buoyant demand for agricultural products meant that landowners sought to utilise more of their land themselves, while mechanisation enabled them to do so without relying on the oxen, ploughs, or family labour of African households. In 1946 there were a mere 20,000 tractors in South Africa. By 1950 there were 48,000, by 1960 almost 120,000. The introduction of combine harvesters in the 1960s as well as irrigation systems and chemical weed killers further reduced

landowners' dependence on African labour. The state showed great determination in its assault on labour-intensive forms of production (and consequent dependence on African labour): Mechanisation was subsidized; sharecropping, already notionally illegal, was stamped out; labour tenancy persisted in only a few areas (De Klerk, 1984; Marcus, 1989: 58-69, 80-5; Schirmer, 1994; Van Onselen, 1996).

Farmers declared African families to be 'surplus' to their needs and state officials removed the new 'surplus' population to the African 'reserves'. More than one million people, i.e. about one-third of the resident African population, were removed from white-owned farms to the reserves (Platzky and Walker, 1985: 10-1), and the proportion of the total African population living in rural areas outside the reserves fell from about 35 percent in 1950 to about 25 percent in 1970 (Simkins, 1983: 53-7). Independent production declined steadily in importance for African households on white-owned farm land after about 1953. Countrywide, independent agricultural production contributed about 20 percent of the 'income' of African households on white farms in 1950, but less than 10 percent by 1970 (Simkins, 1984a). Many Africans continued to live and work on the farms. Indeed, the absolute number of Africans on white-owned farms actually rose slightly in the 1950s, 1960s, and 1970s: it was the 'surplus' population caused by natural demographic growth that was removed. The African households that remained on white farms were still dependent on agriculture, but now they were fully proletarianised, entirely dependent on wages (and in-kind payments) from their employer, and with little opportunity to keep the cattle that had been so central to social and cultural life.

Deagrarianisation was most evident in the reserves, where a rapidly growing proportion of the population lived. Forced removals from the farms combined with natural population growth and tightened controls on emigration to the cities, with the result that average population density in the reserves almost doubled between 1955 and 1969. The proportion of the total African population living in the reserves rose from 40 percent through the 1950s to more than 50 percent by the late 1970s (Simkins, 1983). Rising populations meant growing numbers of effectively landless households. The total value of agricultural production remained steady, but the value per capita fell rapidly. By 1967 agricultural production accounted for only about one-quarter of the reserve population's food requirements and one-sixth of total subsistence requirements (Simkins, 1981; see also Lenta, 1981: 23). The proportion of households in the reserves owning cattle declined, just as it did on white-owned farms (Delius, 1996; Baber, 1998: 292-5; Beinart, 1992). Lacking oxen, and without the means to hire tractors, even families

with access to land could rarely plough it. Many supposedly rural areas became, in practice, thoroughly urban, housing the dependents of urban workers.

Studies of the Transkei in 1982 showed that more than two-thirds of the income of poor and middle-income households came from remittances; about one-sixth, on average, came from old-age pensions and the remaining one-sixth from wages in local jobs; the contribution from agricultural production was insignificant (Wilson and Ramphela, 1989: 62-3). Social and economic change accentuated inequality in the reserves. In one area of the Transkei, the average monthly income of the top 10 percent of households was fifteen times that of the poorest 10 percent. Income was so low among the poor that 'it becomes difficult to afford food apart from simple mielie-meal, samp and porridge, clothing is a luxury, and schooling cost impossible – thus ensuring that the legacy of abject poverty is passed on to the next generation' (Moll, 1984: 38). Simkins estimated that income inequality rose in the reserves; a large majority of households actually had rising absolute incomes during this period, but the poor got poorer – even in absolute terms – because of increasing landlessness and unemployment (Simkins, 1984b: 259).

By the end of apartheid, subsistence agriculture was of negligible importance in South Africa as a whole. Household surveys suggest that, excluding large commercial farmers, the value of agricultural production amounted to only about 1 percent of total income in 1993. Surveys might underestimate the value of subsistence agriculture and natural resource harvesting (see, for example, Shackleton *et al.*, 2000). Even taking such underestimation into account, the value of agriculture for poor households was very small compared to what poor households received from kin through remittances, wages, or government grants.

10. Poverty and Inequality under Apartheid

The lack of data on incomes prior to the 1970s renders it difficult to plot the changing level of poverty with precision. In 1971, Watts sought to extrapolate from the few and often dated local studies that used poverty lines based on Batson's earlier work. His best guess was that almost no white people, perhaps half of the coloured population, a somewhat lower proportion of the Indian population, and between one-third and two-thirds of the urban African population were living in poverty. He did not even attempt to estimate a figure for the poorest section of the population, i.e. the rural African population.

Estimates of life expectancy and infant mortality indicate, however, some general trends in welfare. Although African people in rural areas were not

required to register births and deaths under the 1923 Births, Marriages and Deaths Registration Act, and many municipalities were exempted from the general requirement that statistics be collected in urban areas, basic demographic data have been estimated (including by race) from the 1930s or 1940s. Life expectancy for both men and women rose sharply in the 1940s and 1950s, after which it grew at a slower pace (see Figure 6). By the 1980s, the life expectancy for African (and coloured) people had reached the level attained by white people about fifty years earlier. Infant mortality also improved, with a similar sharp improvement after the war, followed by more gradual improvement thereafter. By the 1980s, infant mortality among African children nationally had fallen to about 60 deaths per 1,000 births (see Figure 7).

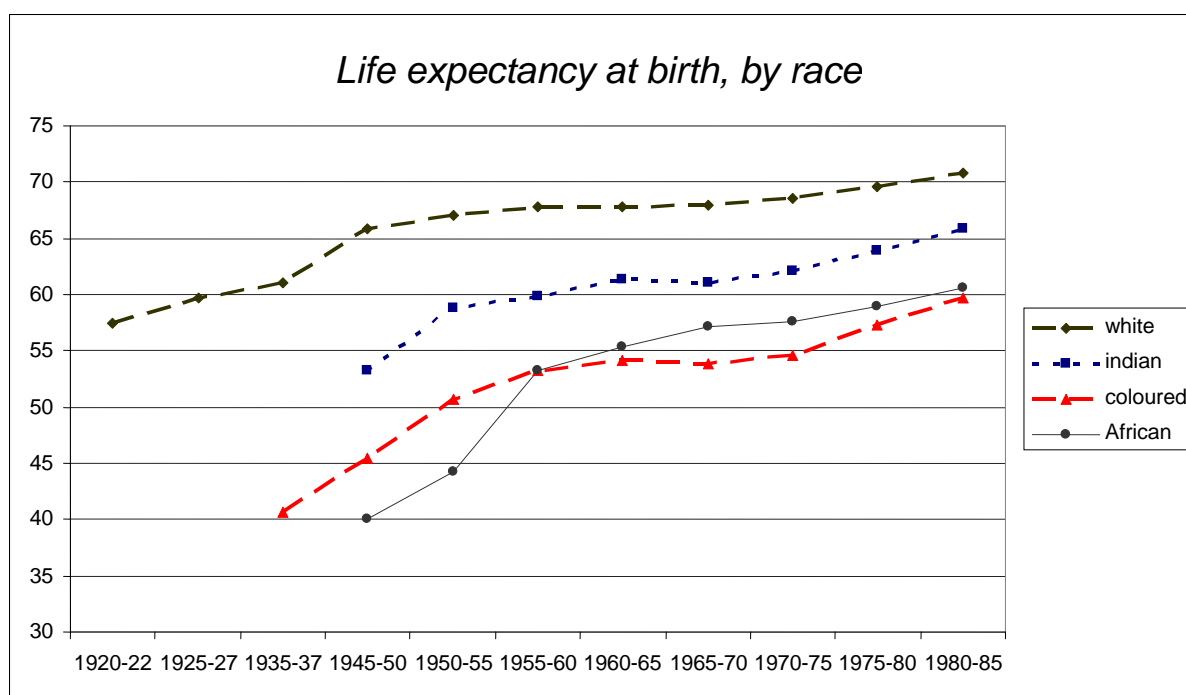


Figure 6: Life expectancy by race

Source: YrBk 1934-35 p987, SA Statistics 1994 3.17

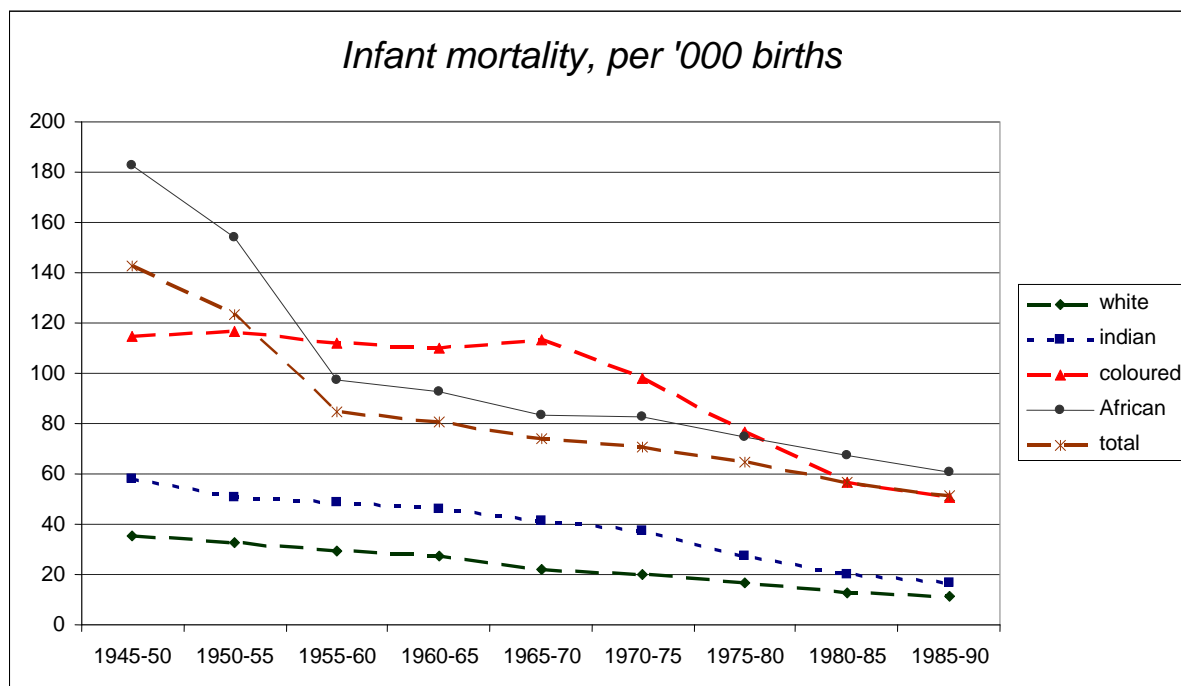


Figure 7: Infant mortality, by race

Source: See Figure 6

The fact that the infant mortality rate had not dropped further reflected, in significant part, the persistence of poverty, especially in rural areas. Simkins' finding that about 15 percent of the population of the bantustans had experienced an absolute decline in real income between 1960 and 1980 (Simkins, 1984b) was supported by a series of studies in the early 1980s, mostly conducted for a research programme on poverty funded by the Carnegie Commission (Wilson and Ramphela, 1989). Whilst there was an overall improvement in child nutrition, as many as one in three African, coloured and Indian children were underweight, with stunted growth. In the poorest areas – including especially resettlement camps – children lived on mealie-meal porridge, samp and bread, almost never eating either protein or fresh greens (*ibid*: 101-6).

The conduct of a countrywide poverty survey in 1993 allowed for the first comprehensive and countrywide analysis of poverty (Wilson, 1996). How many people were poor depended on the choice of poverty line. The post-apartheid government's analysis of the data showed that over half of the population was living in 'poverty' and over one quarter in 'ultra-poverty', using its preferred poverty lines (South Africa, 1995). By the international measure of US\$1 per person per day (or R94 at the time), however, only 24 percent of the population was poor (Klasen, 1997: 56). This was a higher poverty rate than in most other middle-income countries, but was similar to Brazil and very much lower than in

most other countries in Southern Africa (*ibid*: 63; UNDP, 1999). Even the South African ‘ultra-poor’ category included a small number of households with incomes above the \$1 line. As Klasen pointed out, however, in South Africa ‘even people having somewhat more than \$1 a day are *considered* poor’, because of the very evident wealth that existed alongside poverty (1997: 54, emphasis added).

The 1993 survey showed not only that poverty – however defined – was extensive, but also that there had already been considerable upward mobility within the African population. By 1993, two out of three households in the eighth income decile, one-third of the households in the ninth income decile and 11 percent of households in the richest or tenth income decile were African. Although the Gini coefficient for income distribution in South Africa as a whole had not changed since the 1970s, the Gini coefficients for intra-racial income distribution had risen sharply. The Gini coefficient for the African population had risen to above 0.6, i.e. not much less than for South Africa as a whole. The ‘within-race’ component of total income distribution was larger than the ‘between-race’ component, according to decompositions using income inequality (Leibbrandt *et al.*, 1999). In other words, growing numbers of African people were benefiting substantially from economic growth and change – even whilst a small minority was suffering debilitating poverty.

The 1993 data showed very clearly who was poor at the end of the apartheid period (see Klasen, 1997; Seekings and Nattrass, 2005: chapter 6). At the beginning of the apartheid period, households were poor if there was no one within them of working age, and if they received no remittances from absent ‘members’. The ranks of the poor also included some households with members working in very low-wage occupations. By the end of the apartheid period this picture had changed, especially because of the rise of unemployment. The poor comprised households with no one who was working, but most of these households included working age adults. It was just that these adults were unemployed. The generous level of the old-age pension meant that households that included a pensioner were lifted out of deep poverty.

The typical poor household in 1994 lived in a mud house, without electricity and running water, in a supposedly ‘rural’ area; it was headed by a woman in her 40s or 50s, i.e. too young to receive an old-age pension, whose own parents had died and who was neither employed nor supported by a husband employed elsewhere. Such households were poor for a set of reasons. Fundamentally, they were landless, and their adult members were unemployed, usually because they lacked the skills and connections required to get a job in a labour market that

offered few opportunities to the unskilled. Living in poor areas, and lacking financial and social capital as well as skill and experience, they would have been hard-pressed to start a small enterprise. Poor households are poor also because they are unable to make any significant claim on either kin (for whatever reason) or the state (through ineligibility for government grants or pensions).

By the end of the apartheid period, government grants and pensions were reducing considerably the extent of poverty in South Africa. The National Party had inherited, in 1948, a rudimentary welfare state that was distinctly unusual in the world at the time in that the state paid means-tested, non-contributory old-age pensions and disability grants to many poor African people, and grants for poor mothers without non-present fathers and with dependent children to many poor coloured people. The apartheid state refused to raise the real, maximum value of the old-age pension paid to African people for almost twenty-five years (see the gray line in Figure 8), despite doubling the real, maximum value of the pension paid to white people (see the black line in Figure 8). In the later apartheid period, however, the state finally and slowly raised the real value of the old-age pension paid to African men and women, finally removing racial discrimination in benefits in 1993. The real value of the old-age pension in 1993 was almost five times the real value of the pension paid to African people between 1948 and the early 1970s (see Figure 9).

Old-age pensions in South Africa

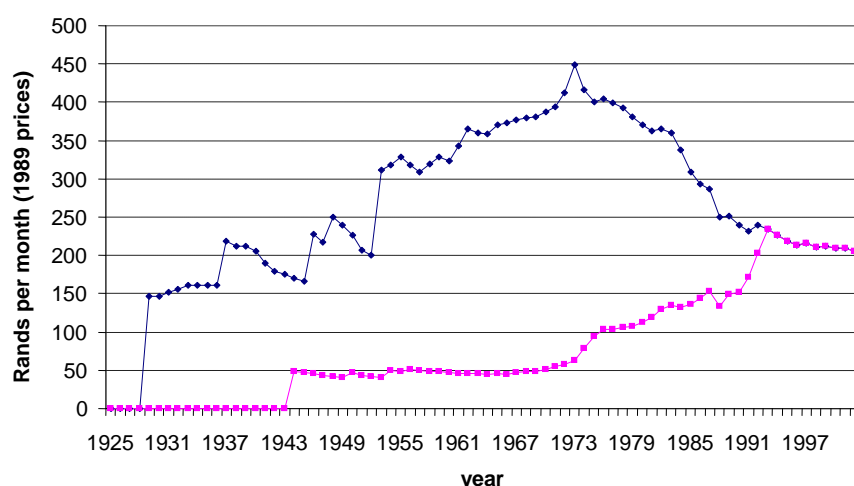


Figure 8. The real value of the maximum old-age pension benefits by race

Social assistance programmes together with public health expenditure in African areas were the reasons why, even at the peak of apartheid, there was (albeit limited) redistribution from white to African people through the budget. Whilst whites enjoyed a very large share of the benefits of the government's social

expenditure, they paid an even larger share of the taxes that financed these. McGrath (1979) calculated that the average per capita ‘income’ of African people was increased by about 10 percent in 1960 and 1970, if account is taken of cash transfers and the benefits ‘in kind’ of public health and education spending, as well as taxes paid. The per capita ‘income’ of white South Africans was reduced by about 5 percent. This redistribution was not unimportant to key beneficiaries – especially pensioners – but was tiny in comparison with the inequality generated in the labour market (and through unequal land-ownership). Indeed, the state could afford some redistribution through the budget precisely because the budget was *not* the primary mechanism by which inter-racial distribution was shaped. One way of looking at this is to say that the apartheid state was so successful in steering the economy down a growth path that favoured a minority of South Africans and in reserving places in this minority for white people that it could easily afford to tax those high-earning white people and redistribute small sums to the disadvantaged majority.

By the end of apartheid, the old-age pension programme and other social assistance programmes were major vehicles for redistribution from rich to poor, and had a substantial effect on the incidence of poverty. Overall, at the end of the apartheid era, about 1.7 times more money was redistributed through the public welfare system than between households through remittances. The consequence of this was that the very poor – i.e., approximately, people with incomes of less than US\$1 per day, or the poorest income quintile – lived in households where no one was eligible for a pension or grant. The moderately poor – i.e. people who were poor in terms of South Africa’s poverty line but were not very poor, or approximately the second income quintile – included many households who had been lifted out of deep poverty by a pension or grant (Seekings and Nattrass, 2005: ch. 6).

The role of public education in the mitigation or reproduction of inequality under apartheid was rather more complex than the role played by other areas of social policy. Public education was central to the state’s project of ensuring that all white people enjoyed advantaged positions in society. Through superior public education, white children would be given skills that privileged them in the labour market, and which in time meant that they no longer had to rely on a job colour bar to get the better-paying jobs. Crucially, state investments in the education of children from poorer white families meant that the parents’ disadvantages – and vulnerability to competition from low-cost coloured or African labour – were not passed onto the next generation. The importance of public education for white people was reflected in the fact that the state spent much more on the white minority than on the African majority – whereas the

public health system spent more, in aggregate, on the latter. The private health care sector grew much faster than the private education sector. By 1968, average public expenditure on African school children was just 6 percent of the value of average public expenditure on white school children (Auerbach and Welch, 1981: 70; see also Fedderke *et al.*, 2001). By 1960, the total number of white students passing matric was sixteen times higher than the total number of coloured, Indian and African students (Malherbe, 1977: 722) combined despite the fact that fewer than one in five eighteen-year-olds was white. The educational gap remained enormous until very late in the apartheid period, when rapidly rising numbers of African children began moving into and through secondary schooling. By 1991, two-thirds of the candidates writing the matric examination (including in the Bantustans) were African, and fewer than one-sixth were white. African students made up more than half of the successful candidates, with white students making up about one-third (SAIRR, 1993: 606).

Expenditure on the education of African children rose sixfold (in real terms) between the mid-1970s and early 1990s – both because of rising expenditures per student and rising enrollment in school (Fedderke *et al.*, 2001; Hyslop, 1999). There were good reasons for these reforms: Continued economic growth needed more semi-skilled and skilled labour than was available within the white, coloured and Indian populations, whilst the maintenance of political stability required that the state both improve opportunities for upward occupational mobility and rising incomes for some African people whilst at the same time mitigating the extremes of poverty. Just as important as the incentives to reform was the removal of political impediments: The state's past investments in public education for white children had ensured that almost all white South Africans enjoyed the privileges of class, and no longer needed overt racial discrimination to maintain these privileges. The expansion of educational and economic opportunities for some African people and the removal of the job colour bar would expose white South Africans to inter-racial competition, but white men and women competed from positions of existing educational and economic advantage.

Fiscal incidence analysis indicates the scale of these changes. Van der Berg (2001: 57) calculates that the value of social expenditure per capita on African people relative to that on white people rose from about 12 percent in 1975 to 21 percent by 1986 and 69 percent by 1993. By 1993, the effects of taxation and social expenditure were to reduce the average 'income' of white people by about one-sixth whilst raising the average 'income' of African people by one-third ('income' including here the estimated value of educational and health care benefits in kind). Compared to other middle-income countries (such as Brazil),

there is considerable redistribution through the budget in South Africa both because of the incidence of social expenditure and the fact that most taxes are paid by the rich. Standard fiscal incidence analysis does, however, value benefits ‘in kind’ in terms of their cost, not their actual consequences. So the value of education to poor children is calculated in terms of what the government spends on the education of poor children. Insofar as teachers in poor areas are paid by the state but provide low quality education, then standard fiscal incidence analysis will overestimate the real value to the poor of public education. At the end of apartheid, children from poor families attended school, often into their late teens or even early twenties. But they left school with few skills.

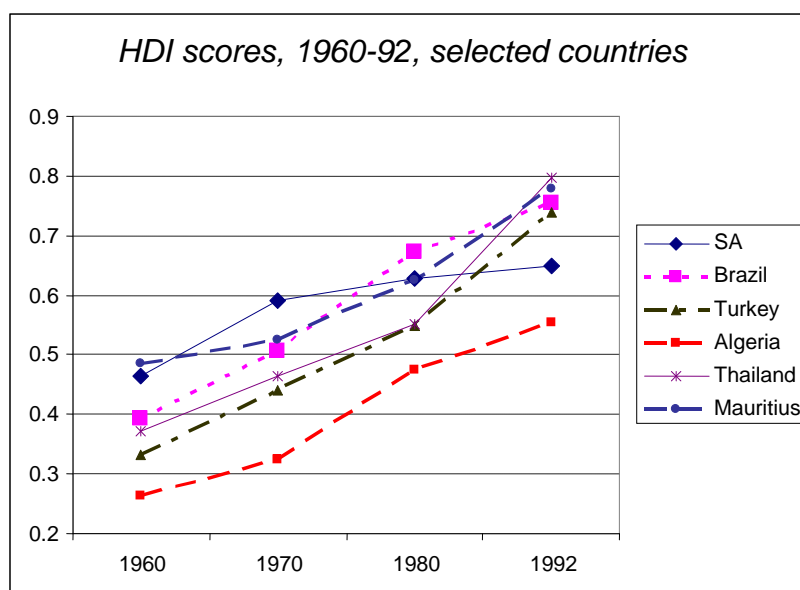


Figure 9: HDI data, 1960-92, selected countries
Source: UNDP, 1997.

The UNDP’s Human Development Index is a composite measure of well-being that takes into account life expectancy, measures of educational attainment, and real GDP per capita (but not the distribution thereof). Figure 9 shows UNDP data for South Africa and selected other middle-income countries from 1960 until 1992 (UNDP, 1997). South Africa – together with Mauritius – started off at the lead of this particular set of countries. Its HDI rose sharply in the 1960s, so that South Africa actually increased its lead. In the 1970s and 1980s, however, its growth rate slowed dramatically, and it was overtaken by Brazil, Mauritius, Thailand and Turkey. Of the six countries shown in Figure 9, only Algeria continued to trail South Africa, and the gap between them was narrowing. (In the course of the 1990s the AIDS-driven decline in life expectancy in South Africa resulted in a plummeting HDI, but this had not begun to have any effect by 1992).

11. The legacy of apartheid

When Nelson Mandela and the African National Congress assumed office in 1994, they inherited an economy beset with problems. Over the previous decade economic growth had been erratic and weak, with GDP per capita growing by an average of only 0.8 percent per annum. Investment had all but dried up and capital was steadily draining out of the economy. Exports were limited, whilst there was a strong demand for imports, posing severe pressure on the exchange rate. The budget deficit had widened to more than 7 percent of GDP in 1993, and the prospect of a debt trap loomed large. As many as three out of every ten adults who wanted work were unemployed. Life expectancy was longer (although deaths due to AIDS were about to reverse this, and life expectancy was to plummet). Income poverty was lower than ever before, but poverty remained stubbornly high, even by the austere measures (such as \$1 per person per day) used for global comparisons.

The challenges facing the new government were the product of deep-rooted patterns of economic activity. Most importantly, perhaps, much of South African business was inefficient, having grown behind protective controls on imported competition which helped them survive with what was, in important respects, a high-cost labour structure imposed on them by the state for political reasons. Industrialisation in South Africa had been based not on 'cheap' labour alone, but on a distinctive combination of cheap and expensive labour. Skilled labour was expensive, not least because the state had for most of the century systematically prevented or inhibited African workers from competing with white voters in order to maintain and raise the standard of living of the latter. Some employers favoured cost-cutting, by replacing expensive white or skilled labour with cheaper African, unskilled or semi-skilled labour. But employers in general could live with expensive white or skilled labour as long as they were protected from foreign competition, faced rising demand from white consumers or the state, and could secure an abundant supply of cheap, African and unskilled labour when necessary. Tariffs, the circumstances of the Second World War and post-war import controls helped to protect domestic producers, and thereby helped to protect the broader system of racial discrimination and inequality.

Ironically, when employers in the last decades of apartheid acquired more freedom to do away with the privileged status of skilled, white workers, they faced an ever more strongly organised African working class determined to acquire the privileges previously reserved for white workers. One of the mechanisms by which the standard of living of white South Africans was

protected was the system of wage-setting built around industrial councils (and the Wage Board for workers in unorganised sectors). By the late apartheid period both of these had ceased to be necessary for the maintenance of white workers' standard of living, because discrimination in public education had given white South Africans the scarce skills and credentials that allowed them to command higher earnings without regard for negotiated minima. The wage-setting machinery became, instead, the mechanism through which white workers protected work-related benefits (such as pension funds) and employers prevented low-wage, labour-intensive competition. When, in the 1980s, independent unions emerged to represent mostly un- and semi-skilled African workers, they came to recognize the value of controlling industrial councils and the Wage Board, and using these to raise the wages and benefits paid to their members. Preventing the emergence of low-wage, low-cost employers was as important to them as it was to the large firms that dominated the employers' side of the industrial council system. By the early 1990s, the consolidation of centralized bargaining through the industrial councils, the provision for the extension of bargained agreements across whole sectors, and the strengthening of minimum wage-setting in unorganized sectors and industries had become core demands of the trade union movement.

These goals gelled with the perceived need to raise productivity, to make South African industry more competitive. Between 1995 and 1998, the new South African state reformed South African labour legislation, essentially extending to unionized African workers the rights won by white workers in the 1920s, and more importantly strengthening the institutions that allowed for the realization of these rights. The institutions of wage-setting thus served as the mechanism for path dependence in the economic growth path, with continuing capital-intensification (despite unemployment).

Marxist scholars had long argued that South African capitalism was based on the low wages paid to, i.e. exploitation of African workers. In the face of rising real wages paid to African workers in the 1960s and early 1970s (Lipton, 1974; Bromberger, 1974, 1978), Legassick defended the 'cheap labour' thesis by arguing that apartheid policies continued 'to "cheapen" labour, to make it cheaper than it would have been in their absence, whether or not the absolute magnitude of the wage of employed persons is rising or falling' (1978: 73-4). In the 1990s, formerly Marxist scholars switched to arguing that higher wages were appropriate because these would compel employers to manage more effectively and raise productivity (Joffe *et al.*, 1991). Trade liberalisation certainly put inefficient producers under pressure, with substantial reductions in tariffs between 1994 and 2000 (Edwards, 2005; Edwards, Cassim, and van Deventer,

2009). (The relaxation of exchange controls also contributed to the ‘unbundling’ of the large conglomerates; Anglo-American, most dramatically, more than reduced its share of the JSE to 17 percent in 1998, and then shifted its primary listing to the London Stock Exchange its head office to London – McGregor, 1999). Rising wages for unskilled workers also pushed employers to invest in more skill- and capital-intensive technology, which had the effect of raising average productivity. In manufacturing, after 1994, the rise in average wages and labour productivity came at the cost of falling employment (see Figure 4). The rising profit share was good for those employers who remained in business, and higher wages were good for those workers who kept their jobs. The ‘losers’ were the predominantly unskilled workers who lost jobs, and the many more for whom the lack of job creation meant continuing unemployment.

Rising productivity would have been unambiguously good if resources were fully employed, but the economy failed to grow anywhere near fast enough to generate the required jobs. In the decade after 1994, South Africa’s GDP *per capita* growth of 1.2 percent per annum was comparable to Sub-Saharan Africa (1.1 percent per annum) and Latin America (0.8 percent per annum) but substantially below that of East Asia (6.2 percent per annum) and South Asia (3.7 percent per annum) (Rodrik, 2008: 770). Post-apartheid economic planners had hoped to develop a strong export sector. However, exchange rate instability, skilled labour shortages, high unit labour costs and structural rigidities (notably specialisation in sectors with highly specific factors of production that could not easily be redeployed elsewhere) contributed to the decline of non-mineral exports rather than the hoped for expansion (Rodrik, 2008; Hausmann, 2008; Hausmann and Klinger, 2008; Edwards and Alves, 2006). Overall employment growth lagged behind real output in all sectors – which meant that ever larger increases in output were necessary to facilitate new job creation. The failure to grow exports meant that during economic upswings South Africa experienced persistent and growing balance of payments deficits as import demand outstripped exports. While this replicated an old pattern in the South African growth path, what differentiated the post-apartheid period was the reliance on increasingly erratic flows of foreign savings (notably portfolio investment) to finance the current account deficit. This left the country increasingly vulnerable to destabilising reversals in capital flows.

Growth was not entirely jobless, but rising participation rates meant that unemployment actually increased in the late 1990s (Bhorat and Oosthuizen, 2006). The consequence was that inter-racial inequality continued to decline but intra-racial inequality continued to grow and income poverty worsened in the late 1990s. Faced with a severe fiscal crisis, inherited from the National Party

government but exacerbated with generous wage settlements in the public sector in the mid-1990s, the post-apartheid state adopted a very cautious approach to new social expenditure, and thereby failed to redress the immiserisation stemming from the labour market (Van der Berg, 2006; Seekings, 2008; Leibbrandt, Woolard and Woolard, 2009).

In some respects, the post-apartheid economy faced the fundamental challenge and dilemma that had faced the Mills Commission in 1925-26. On the one hand, a well-organised set of citizens demanded a certain minimum standard of living – a ‘civilised’ or ‘living’ wage, for ‘decent’ work, insisting on the justice of their claims. On the other hand, internal markets were too small and global markets too competitive for employers to be able to employ the entire labour force at these wage rates. This dilemma was resolved politically, in that the state intervened in the labour market to ensure that selected workers would be assured of higher incomes. For most of the twentieth century, employers were protected against imported competition in return for employing high-wage white workers. After apartheid, trade liberalisation exposed employers to much more intense competition, making it much harder to pay higher wages unless these were matched with increased productivity. As formal, unskilled work disappeared, unemployment worsened.

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