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# Industrial Decentralisation: Ideal, Theory and Reality

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## Socio-political Rationale or Rationalisation?

Industrial decentralisation in South Africa may be viewed in two different ways. The first is to regard it as a tool in the policy of 'separate development' aimed at restructuring the socio-political system [Bell 1973a], while the second considers it, together with other key aspects of separate development such as 'homelands', as providing no more than an intellectual disguise for a policy which is designed to maintain White economic power based on the control of resources, notably abundant supplies of cheap labour [Legassick and Wolpe 1976].

It is my contention that South Africa since 1948 can be analysed in a realistic way only by referring to the driving forces behind Afrikaner nationalism. The party which came to power in that year was motivated by three forces. First, the determination that never again should the Afrikaner be ruled by others. Since 'others' would be most probably African nationalists, this meant, second, that racial segregation was regarded as necessary in the socio-political sphere. The third force was an economic one, ie the conversion of the Afrikaner's position of economic inferiority to one of equality with English-speaking Whites.

Although some useful insights are contributed by proponents of the second view, my experience of the Afrikaner nationalist convinces me that the first approach is more appropriate. Historical, psychological, racial and economic factors have all influenced the actions of the National Party (NP) in power. The theoretical framework of separate development, formulated from the early 1940s, was inspired by visions of Afrikaner political domination and of racial segregation rather than by visions of Afrikaner economic prosperity [de Klerk, 1976: ch 9]. The 'Afrikaner-English' economic gap has to a large extent been diminished thanks to the NPs use of political power for the purpose of gaining economic power. There has been some dilution of racial segregation, although not of a fundamental nature. But the continued predominance of the first driving force, Afrikaner nationalist political power, is illustrated by the proposed new constitution which in effect guarantees NP (as opposed to White) rule in the 'common area'<sup>1</sup> of South Africa (CASA).

The idea of decentralisation had been hinted at in the 1930s when rural-urban migration by both whites and Africans was causing official concern. The African component of this townward drift was further stimulated by the demands of the war economy, and the question of urban Africans became a key political point. During the immediate post-war years three industrial plants were established in African areas as part of a scheme to slow down migration. Industrial decentralisation was also suggested by the Fagan Commission which, in the last days of United Party rule, recommended that the permanent presence of Africans in the urban areas be acknowledged. The new NP government, however, could not agree. Instead it considered Africans as temporary urban sojourners ultimately to be resettled in the Reserves. The Tomlinson Commission, appointed to investigate the economic development of the Reserves, reported in 1954 with the recommendation that industry be decentralised to the Reserves as a major instrument in their development, rather than to 'border areas', ie industrial estates in CASA but adjoining the Reserves. This was rejected by the government in a 1956 White Paper on the grounds that industrial investment in the Reserves would lead to White domination in these areas and that this would be contrary to the principles of separate development.

When the government finally established the machinery for industrial decentralisation in 1960, however, it justified its step by using the 'costs of urban concentration' argument so popular in many countries. Perhaps it believed that the private sector would be more easily swayed by an economic rather than a political case. But apart from the fact that there was no empirical evidence to support this contention in South Africa with its relatively small cities, the choice of 'growth point' locations clearly shows that the real reason for decentralisation was political, not economic. An official policy of decentralisation existed only because of the policy of separate development, its aim being to facilitate racial segregation by increas-

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<sup>1</sup> The use of the terms 'homelands' and 'common area' is for the purpose of convenience only and should not be taken as indicating the author's approval of government policy. The common area has been inhabited by all races; the homelands in contrast have been reserved for exclusive African occupation and were in fact known as 'Reserves' until about 1960.

ing the proportion of the African population residing in the Reserves [Bell 1973a]. It was for this reason that the selection of growth points was based not on the position of towns in the urban hierarchy but on proximity to the Reserves.

The aim of this paper is to examine the policy of industrial decentralisation in the light of the available body of regional economic theory.<sup>2</sup> This may throw further light on the reasons for the discrepancy between the ideal and the practice of separate development, and provide some indication of the likely results of present policy.

### **Decentralisation – Theory and Policy**

The policy instruments adopted to encourage decentralisation, and the results achieved, are broadly similar to those of other countries which have attempted to disperse industry. Decentralisation programmes in most countries date back only since the war and have had no well-developed body of economic theory on which to draw; the interest of economists in the spatial distribution of economic activity is only a comparatively recent one and regional economic theory is at present in a state of disarray [Friedmann, 1979].

Regional theory draws on location theory. But when location theory and the available empirical evidence on location decisions are distilled, only three useful points emerge. These are: i) the differences between locality-bound and footloose industries; ii) the strong influence of agglomeration economies; and iii) the importance in decision-making of the personal (and often subjective) preferences of entrepreneurs. Thus industrial decentralisation is likely to be most successful in those regions possessing a raw material base and/or a market potential, able to develop agglomeration economies at the growth centre(s), and able to create an attractive living environment.

Yet these may not be sufficient conditions for the success of growth centres, the concept on which most mixed economies have based their decentralisation efforts. The idea behind this concept is that government will provide the physical infrastructure (serviced industrial estates) and financial incentives (investment subsidies, tax concessions and so on) in the hope that these will attract private investment on a scale sufficient ultimately to provide conditions of self-generating growth without such aid. However, accumulated experience over the years has shown the growth centre concept to have a

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<sup>2</sup> Industrial decentralisation and homeland development are discussed in greater detail by the author in R. Schrire (ed), *South Africa: Public Policy Perspectives*. Juta, Cape Town (forthcoming)

number of important weaknesses, and these are borne out by the South African example.

First, the three location factors mentioned above are more likely to be met in existing largish towns than in artificially-created growth points (as growth centres are officially called in South Africa). Thus it is no accident that the growth points most successful in attracting industry have been either existing large centres or those located on metropolitan peripheries. But the imposition of a racial constraint meant that small towns with little natural growth potential have been designated as growth points and that some industrial estates and associated new towns have been established in remote areas.

A second, and related, factor is that the success of growth centre strategy depends on the designation of only a few growth centres and the recognition of those centres for a considerable period [Richardson 1971]. In South Africa the failure of border areas to generate economic activity in the homelands led to the designation of growth points in the homelands, while unemployment among Coloureds and Indians also lead to the creation of growth points for these two groups. Thus, rather than concentrating on the most favourable areas, the decentralisation effort has been scattered – 21 growth points by 1975 and financial assistance available in over 50 other towns! Within 10 years the three most successful growth points had been deproclaimed; the necessity to promote ‘homeland’ development may well lead the government to deproclaim other centres prematurely.

Third, as has been the case in Western Europe, the government has found it necessary to offer increasingly generous concessions, augmenting them on no less than five occasions since 1960.

Fourth, government provision of physical infrastructure and financial incentives does not mean industrialisation will occur; this is left to the private sector. Governments may, however, take the lead in establishing heavy industries with high linkages (eg iron and steel plants) at growth points in an attempt to create an ‘industrial complex’. Examples in South Africa may be found at Richards Bay and Newcastle. But such ‘propulsive’ industries do not necessarily generate spin-offs; they are often capital-intensive and their linkages tend to be with markets and suppliers outside the region in which they are located [Appalraju and Safier 1976]. The state investments at Richards Bay and Newcastle have coincided with economic recessions and have thus far generated few local linkages, while at other growth points the industries

which have been attracted have tended to be those with low linkages.

The instruments of decentralisation referred to above are persuasive in nature; governments have preferred such approaches rather than coercion. But the South African Government resorted to coercion when it became clear that the flow of Africans to the cities was continuing unabated. The Physical Planning Act of 1967 provided for 'controlled areas' in which the establishment or extension of factories could be prohibited. In the lexicon of apartheid, 'extension' was defined as an increase in the number of African employees! With the exception of Natal and East London, all the major industrial centres were declared controlled areas. The Act caused great confusion and anxiety in the private sector, and the government subsequently allowed locality-bound and 'relatively White-labour intensive' industries (defined as a ratio of 1 White : 2.5 Africans and later 1 White : 2 Africans) to continue to be located in the Pretoria-Witwatersrand-Vereeniging (PWV) regions, the country's industrial heartland.

Permits waiving the provisions of the act may, however, be granted. In the first nine years of the Act, 90 per cent of the applications for exemption by industrialists were granted, but the refusals nevertheless affected 102,000 potential African workers. There are no data as to how the firms responded to the refusals; judging from the number of jobs created at growth points during this period, it appears that very few were induced to locate at such points. Nor could firms easily have substituted Coloured or Indian labour for African; the textile industry of the PWV region, for example, was replacing upwardly-mobile Coloured workers with Africans and was one of the Act's chief antagonists.

The scattered nature of growth points was exacerbated by the decision in 1968 to encourage industrialisation in the 'homelands'. This was a reversal of the government's rejection of the Tomlinson Commission recommendations concerning industrial development in the Reserves. The earlier view that border area growth would spill over into the Reserves was theoretically improbable. This ought to have been grasped when the policy was finally implemented in 1960, for by then the discussion about capital migration v labour migration in regional development strategy was well established in the literature. It should have been clear that border areas were conceptually inadequate to stimulate 'homeland' growth; they involved neither the location of industry in the 'homelands' nor permanent migration from them. The 'homelands'

would therefore have to provide housing and urban services for the industrial labour force without the benefit of a concomitant growth of a corporate tax base, and there would be a considerable leakage of wages to the border areas. This has proved to be the case; all the border areas have done is to perpetuate the labour export function of the 'homelands'.

With the evolution of the homelands policy and the acceptance by the government of the idea of political independence, greater emphasis has been placed recently on development planning. The major objective of the government's homeland economic policy is to absorb Africans resettled from CASA [Benbo 1976]. Strong emphasis is therefore placed on the establishment of towns and industries (and consequently on physical planning). But the creation of ten homelands implies the creation of at least one growth point for each. This increases the competition for industry between the core (CASA) and the periphery (the homelands and the BLS countries – Botswana, Lesotho and Swaziland) in two major respects.

First, on the assumption that the homelands are separate political entities, the South African Government has prepared a National Physical Development Plan (NPDP) which covers regional development in CASA. Identified in the NPDP are potential metropolitan regions and a number of growth points with existing or potential locational advantages over the homelands. Although some homelands – KwaZulu, Ciskei and Bophuthatswana – impinge upon metropolitan regions and large towns in CASA and would not necessarily be at a serious locational disadvantage, the growth points selected are largely in remote areas of these homelands. Moreover, the homelands have to compete with CASA in the incentives offered to industry. Thus, for instance, homeland administrations have tended to waive the 'agency basis' whereby investors were to be obliged to transfer ownership to local concerns after 25 years. The problem is that the periphery has to bargain with investors who have a wide range of locations from which to choose.

Second, the BLS countries are part of the Southern African Customs Union which provides for a free flow of goods and for the protection of infant industries against South African products – the latter clause, incidentally, not being applied to the independent homelands [Leistner 1977]. These three countries are all trying to industrialise. Industries wishing to produce for markets in the rest of Africa (and the Third World) as well as the customs union would, for political reasons, find

better locations than the homelands. In practice, however, such firms are likely to be South African rather than transnational, and BLS have thus far attracted relatively few such enterprises, largely because the risk perceptions are unfavourable [Selwyn 1975].

### **The Impact of Decentralisation**

What then have been the results of the decentralisation policy? It has been argued that three points must be proved if such a policy is to be regarded as successful [Cohen 1978].

- i) That the policy stopped the metropolitan regions from increasing their relative share of total manufacturing employment. South African data show that in 1938-70 the share of the four metropolitan regions remained constant at about 80 per cent. Thus the first decade of the policy had little impact on the pattern; this implies, of course, that the absolute difference in numbers employed in these regions and elsewhere increased. And the metropolitan regions increased their share of total population.
- ii) That the policy attracted industrial investment away from the metropolitan regions. The present border areas and homelands contained 11.8 per cent of all manufacturing employment in 1959-60 and 12.8 per cent in 1969-70. Assuming that the share would have remained constant at 11.8 per cent in the absence of a decentralisation policy [Bell 1973b] only the increase (amounting to 11,600 jobs) may be attributed to the policy. Thus of 87,000 jobs created (for all races) in the growth points during this period, 75,400 would have been created anyway.
- iii) That the investment resulting from the policy resulted in a genuine dispersal as opposed to a suburbanisation of industry. The most successful growth points of the 1960s – Pietermaritzburg, Hammarsdale and Rosslyn – represented the latter, being essentially an outward extension of the Durban and PWV metropolitan regions.

Whether or not the policy has been 'successful' according to these three criteria, it is clear that employment creation in the growth points has been slow. Data for 1970-76 suggest even slower progress; by 1970 there were 61,500 Africans in decentralised industries as against 82,100 in 1976 [South Africa 1977; Benso 1978]. The increase seems low, but of course economic growth slackened off in the 1970s.

The success or failure of South African decentralisation policy must be judged against the theoretical foundations of growth centre doctrine as well as against the aims of the government's separate development policy which it was introduced to serve. A recent study concludes that the growth centre concept has failed as a tool of regional development [Friedmann 1979]. But in mixed economies we do not appear to have anything better (the Soviet spatial production complexes are analogous). The industrial complex type of growth centre at a key location offers the best prospects for building up agglomeration economies, attracting further industrial and other investment, and stimulating regional growth. If this view is correct, it means that South Africa should probably have no more than two or three growth points for the foreseeable future. This has serious implications for industrial growth in the periphery. Industrial complexes may perhaps best be established by massive state investments, but it is doubtful whether the South African core is sufficiently developed to fund such investment in each homeland *and* sustain its own growth. Thus the fourth largest metropolitan region in the country (Port Elizabeth/Uitenhage) is heavily dependent on the automobile industry and has failed to attract a range of industries sufficiently diversified to cushion it against the effect of an economic recession. Moreover, some of the homelands lack a resource base – an indigenous rationale – for industry. To the extent that industrial growth is seen as important in homeland development strategy, the theoretical base for the government's homeland policy is weak.

It might be premature to write off decentralisation as a failure when, as in most other countries, it has been in operation for only 20 years. But the South African programme, with its political objective, must be viewed against the recommendations of the Tomlinson Commission. It was estimated by the commission that 20,000 industrial jobs per annum would be required in the Reserves if separate development were to succeed. This implied large-scale public investment. That was 25 years ago, and the achievements have been minimal. Not only has little employment been generated in industry, but the industries themselves have had weak linkage effects and have failed to stimulate any significant development in other sectors. Nor has the dependence of the urban centres of CASA on African labour been reduced or the political future of Africans in these centres resolved. It is true that the proportion of the African population resident in the homelands has increased since 1960, but this has been the result rather of population relocation and boundary changes than of deliberate decentralisation.

tion. The best hope the peripheral areas have of industrialising is not by attracting footloose industries away from the core but by producing the raw material inputs for processing plants. And in many of the decentralised areas, the prospects for resource-based industrialisation are poor, if not totally non-existent.

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